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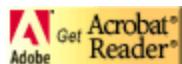
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Director: Linda S. Luebbering

Fiscal Year 2005 Budget In Brief

Missouri Budget and Legislative Agenda

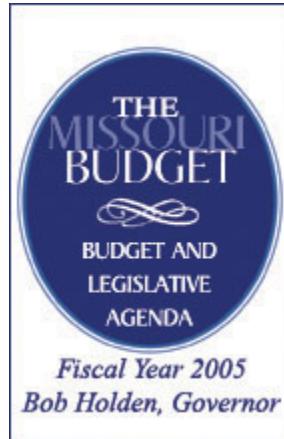


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Bob Holden

Governor

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January 21, 2004

TO THE GENERAL ASSEMBLY AND THE PEOPLE OF MISSOURI:

Ensuring our children have a high quality education has always been my number one priority. We have made great strides in this area. High school graduation rates have increased, assessment scores have improved, and more teachers have been accredited through National Board Certification.

However, our children's education is now threatened by the revenue shortfall facing this state. My budget recommendations have always protected education from cuts. My recommendations have chosen our children's education over corporate tax loopholes, gambling interests, and cigarette manufacturers.

My budget and legislative package continues to call upon the General Assembly leadership to do the right thing for our children's future by protecting education funding. I ask them to choose education over corporate loopholes. I call upon them to increase gaming revenue for education. The gaming industry as a whole has enjoyed increased profits and can afford to help fund education. I also ask them to raise cigarette taxes, because Missouri ranks fifth from the bottom in its cigarette tax rate.

It is also important that we act immediately to take advantage of Missouri's recent economic momentum. Missouri has gained 30,000 jobs since January 2003. The national economy lost more than 220,000 jobs during the same time. Missouri is eighth of all states in terms of job growth since the beginning of the year. Missouri has created more jobs than all of our surrounding states.

In December, I announced Jobs Now, a comprehensive plan to create new jobs. Jobs Now calls for job creation and investments in critical infrastructure, and stimulating the growth of our targeted industries like the plant and life sciences. This initiative will not result in increased costs because existing resources will be redirected through the repeal of several outdated and inefficient tax credit programs.

This legislative session brings both challenges and opportunities. The state faces challenges to balance the budget without cutting too deeply. It also brings opportunities to ensure the education of our children and the future of this state. My plan will protect funding for education, help our state create the jobs necessary to ensure a brighter future, and balance the budget.

Sincerely,

Bob Holden
Governor of Missouri

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Missouri is a Leader in Education

"I will work tirelessly to find a solution that provides a quality education for Missouri's children."

Governor Bob Holden

Governor Holden's highest priority has always been education. Providing a quality education to Missouri's children is the best way to ensure the future success of the state and compete in the new, global economy. A high quality education leads to better school attendance, higher test scores, and greater success in college and the workplace. Missouri has made great strides in improving the quality of public education. However, these improvements are in jeopardy due to the continuing budget shortfall.

- Between 1996 and 2003, high school graduation rates increased from 74.9 percent to 84.2 percent. Missouri now ranks in the top ten nationally on high school completion rates.
- Missouri's students have shown significant progress on the National Assessment of Educational Progress over the past ten years. Fourth graders scoring in the top levels for math have improved from 19 percent to 30 percent, with gains in reading as well. Eighth graders in the top levels for reading rose from 28 percent to 34 percent and made significant gains in math.
- Approximately 60 additional teachers have become accredited through National Board Certification in 2003, bringing the total number certified in Missouri to 199. Certification improves the quality of teaching which is the chief determinate of student academic progress.
- Missouri students' ACT scores remain consistently above the national average. In 2003, Missouri students averaged 21.4 on the ACT while their national counterparts averaged 20.8. The ACT measures mastery of English, mathematics, reading, and science and is an indicator of how well students are prepared for college.

The Governor vetoed Fiscal Year 2004 appropriation bills for elementary and secondary education and higher education in an attempt to protect Missouri education programs from further budget reductions. Unfortunately, the General Assembly has not agreed to close corporate loopholes and increase taxes on the gaming industry that would raise revenues to maintain our commitment to Missouri public education. Instead, the General Assembly cut education by hundreds of millions of dollars.

This year, the Governor will continue to push for a targeted revenue plan to adequately fund Missouri's educational system and protect public schools from devastating cuts that inevitably lead to fewer teachers, larger class sizes, fewer classroom resources, lower academic achievement for students, and tuition increases that hinder access to college.

The Impact of State Budget Cuts

Deep cuts have already been made to the Missouri budget. State departments have worked to minimize the impact of reduced funding on services. However, the following examples show how these cuts have negatively impacted the education community and Missouri students:

- On January 6, 2004, more than 240 school districts filed a lawsuit against the state for its failure to adequately and equitably fund public education.
- The School Foundation Program was reduced by \$115.8 million by the General Assembly. Since a significant percentage of the program supports teacher salaries, school districts were forced to eliminate 2,001 classroom teachers and aides. An additional 508 positions were also reduced that included principals, supervisors, library/media personnel, guidance personnel, and administrative staff.
- Reductions to the School Foundation Program have forced school districts to increase class sizes and eliminate programs for gifted, at-risk, and disruptive students.
- New technology grants to schools were reduced by \$8.8 million, a 42 percent decrease. This resulted in markedly reduced grants to school districts for the purchase of computers, software, and Internet connections.
- The Safe Schools Program was cut by \$2 million, resulting in no first-year grants for school districts. The loss of funding has forced many school districts to eliminate programs to educate disruptive and/or violent children in alternative settings. As a result, these students will again be placed in regular classrooms, making learning more difficult for all children.
- The A+ Schools Program was reduced by \$5.9 million, resulting in students no longer receiving reimbursement for textbooks.
- The Missouri Assessment Program (MAP) was reduced by \$4.4 million, resulting in the state not being able to administer the Science, Social Studies, and Health/Physical Education assessments. Without these assessments, the department is unable to determine how well students are performing statewide in these important subject areas.
- A reduction of \$39.7 million in state aid to higher education institutions has resulted in tuition costs at Missouri's public four-year colleges and universities rising by an average of 14.8 percent in the last year. Tuition costs at Missouri's community colleges have risen by an average of 9.3 percent over the same time period. The average Missouri college student now pays \$1,344 more per year in higher tuition and fees to attend a four-year institution and \$342 more per year to attend a two-year institution. The tuition increases have placed an enormous financial burden on Missouri students and their families, and have forced an increasing number of students to take on unacceptably high levels of debt in order to pursue a college education. In addition to increasing tuition, institutions have been forced to eliminate programs and cut faculty and staff in order to deal with the funding reductions.
- Missouri's grant and scholarship programs were reduced by \$589,550, resulting in many students not receiving financial aid. Reduced financial aid, on top of crippling increases in tuition, is prohibiting some lower and middle income families from affording the cost of college.

Governor Holden's Accomplishments

Prior to legislative cuts, Governor Holden accomplished the following to improve the state's investment in public education:

- Secured \$213 million in Fiscal Year 2002 to increase funding for the state's School Foundation Formula and At-Risk Program. The Governor also secured \$135 million in Fiscal Year 2003. In the current fiscal year, the state's School Foundation Program was reduced \$115.8 million by the legislature.

- Proposed landmark legislation to establish a means to recognize high-performing schools, as well as placing certain requirements on schools not meeting basic academic standards. House Bill 1711 was signed into law June 19, 2002.
- Recommended legislation to require report cards on academic performance and school conditions at the building level. Senate Bill 575 and House Bill 865 were signed into law on June 14, 2001.
- Signed legislation to clarify that assets from criminal forfeiture cases benefit the School Building Revolving Fund. Senate Bill 5 was signed into law May 17, 2001. Further changes through Senate Bill 675, signed into law June 26, 2003, allowed additional support for the School Foundation Program during Fiscal Year 2004.
- Selected as one of only five governors to serve on the National Governors' Association School Readiness Task Force. This group will offer guidance to all governors on efforts to help students enter school ready to learn.
- Established the Missouri School Violence Hotline to protect Missouri's school children. The hotline is a joint effort of the Departments of Public Safety, Social Services, and Elementary and Secondary Education. Students, parents, and school personnel are encouraged to report physical acts, threats, bullying, intimidation, fights, and weapons on school property.
- Pushed for the additional certification of teachers by the National Board for Professional Teaching Standards. The voluntary certification process is a way of encouraging teachers' professional growth and recognizing individual teaching excellence. Governor Holden recognized 61 additional Missouri teachers in 2003.
- Recognized 176 school districts for "Distinction in Performance." The criteria, established by the State Board of Education, include MAP test scores, ACT test scores, attendance and dropout rates, and other academic performance measures. One-third of the state's 524 school districts have met these state standards which are based on accreditation requirements.
- Established the Missouri Math Academy to improve mathematics instruction. The academy trained 105 teachers in 2003 and is expected to train another 100 in 2004.
- Signed legislation authorizing the Coordinating Board for Higher Education to promote and encourage the development of cooperative agreements between Missouri's public four-year institutions. This will provide greater access to graduate education on the campuses of public institutions that do not currently offer graduate programs. Senate Bill 55 was signed into law on July 11, 2003.
- Bestowed the Governor's Award for Excellence in Teaching to nearly 200 college and university faculty between 2001 and 2003.

FUNDING PUBLIC ELEMENTARY AND SECONDARY EDUCATION

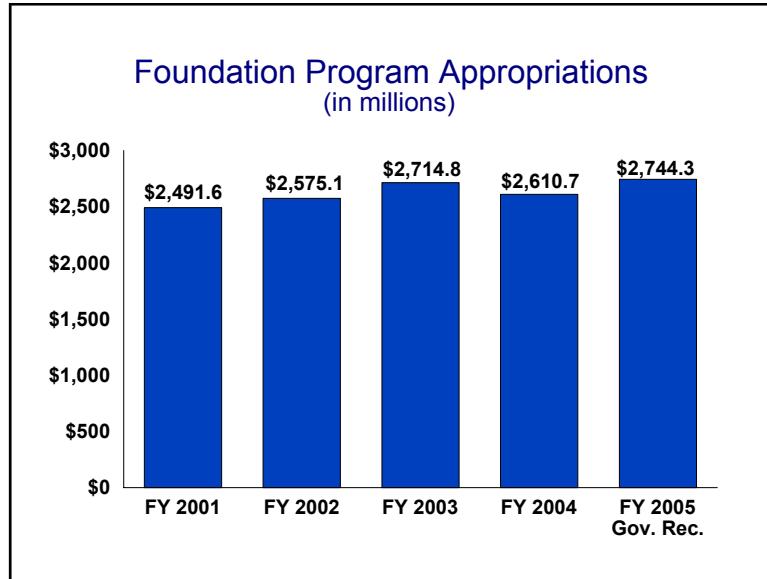
In the Fiscal Year 2005 budget, Governor Holden will, once again, make protecting education his top priority. He is committed to balancing the budget while protecting funding for Missouri's 524 local public school districts. With budget reductions over the past three years, the Governor has fought to protect funding for K-12 education. However, in Fiscal Year 2004, the General Assembly cut the Foundation Program by \$115.8 million. Restoring funding of the Foundation Program will assist school districts in providing vital services and essential tools students need to succeed in school. The Foundation Formula, one component of the Foundation Program, provides funds to improve student academic achievement, lower class sizes, provide professional development opportunities to teachers, and improve curriculum. The Governor's Fiscal Year 2005 budget restores the money the General Assembly cut as follows:

- \$100 million for the Foundation Formula and At-Risk Program, increasing total funding to \$2.2 billion.
- \$9.9 million for the School Transportation Program, bringing total state funding to \$162.1 million.
- \$2.4 million for Parents As Teachers, bringing total state funding to \$30.3 million.

- \$1.5 million for the Gifted Program, bringing total state funding to \$24.9 million.
- \$800,000 for Vocational Education, bringing total state funding to \$52.9 million.

In addition to restoring the reductions to the School Foundation Program, the Governor's Fiscal Year 2005 budget includes the following increases for education:

- \$20.7 million to provide educational services to three- and four-year-old children with disabilities.
- \$12.5 million from Proposition C sales tax revenue for distribution to local school districts. Proposition C is a portion of the state sales tax dedicated to schools.
- \$20 million for federally mandated special education services to provide grants that support students with disabilities.
- \$15 million for the Reading First Grant Program which provides resources for teachers to improve reading instruction.
- \$5 million for competitive grants to school districts and community-based organizations to establish or enhance after school programs. Quality after school programs keep children safe until their parents get off work and provide a variety of services such as drug and violence prevention training, technology education, and counseling.



**STATE AID TO LOCAL SCHOOL DISTRICTS
(Not Including Desegregation)**

	<u>FY 2004 APPROPRIATION</u>	<u>FY 2005 RECOMMENDATION</u>
School Foundation Program		
Equity Formula and At-Risk	\$ 2,075,857,670	\$ 2,175,891,721
Transportation	152,167,319	162,067,713
Gifted	23,415,942	24,870,104
Special Education	149,617,982	149,617,982
Remedial Reading	11,096,925	11,096,925
Early Childhood Special Education	81,274,784	102,011,209
Career Ladder	37,297,656	35,526,150
Vocational Education	52,080,428	52,880,428
Parents As Teachers	27,895,976	30,304,651
Subtotal Foundation Program	\$ 2,610,704,682	\$ 2,744,266,883
Other State Aid		
A+ Schools Program	\$ 12,609,960	\$ 12,609,960
Adult Literacy	500,000	500,000
Safe Schools Grants	5,122,368	4,122,368
Proposition C Sales Tax	693,947,458	706,400,000
Fair Share Cigarette Tax	23,225,250	22,500,000
Free Textbook Fund	89,650,000	73,950,000
School Food Program	3,460,219	3,487,799
Early Childhood Program	16,545,112	16,545,112
DSS/DMH School Placements	10,099,337	10,099,337
Subtotal Other State Aid	\$ 855,159,704	\$ 850,214,576
Total State Aid to Local Schools	\$ 3,465,864,386	\$ 3,594,481,459

Local Funding for Education

In addition to the vital state funding that goes to Missouri's 524 school districts, public schools also rely on local funding from property taxes. Because the General Assembly has failed to adequately fund public education, more school districts are required to ask voters to increase local property taxes to aid their local schools.

Most ballot issues placed before voters require a simple majority in order to pass — 50 percent of the vote plus one. For local school district bond issues, Missouri's Constitution currently requires a supermajority — 57 percent to 67 percent of the total vote. Missouri is one of only ten states that continues to require a supermajority for approval of school district bond issues. Nearly all other ballot proposals, including the election of legislators and statewide elected officials, are decided with a simple majority vote. Depending on the election date, the same ballot issue could be required to gain four-sevenths majority or two-thirds majority. Governor Holden supports changing this provision.

2004 Legislative Initiative Simple Majority for Local School Bond Issues

If the General Assembly continues to inadequately and inequitably fund public education, they should at least give schools and voters the opportunity to maintain or generate additional local funding. The Governor calls on the General Assembly to pass a constitutional amendment allowing Missouri voters to pass local school bond issues with a majority of affirmative votes.

Lottery Proceeds for Education

Article III, Section 39(d) of the Missouri Constitution, approved by voters in August 1992, requires all net proceeds from the State Lottery be appropriated solely for elementary, secondary, and higher education. During Fiscal Year 2005, \$206.7 million will be available from lottery revenues for education. The Governor recommends \$131.2 million to support programs in the Department of Elementary and Secondary Education and \$75.5 million to support programs in the Department of Higher Education. The Governor recommends allocating estimated lottery revenues as shown on the following page.

LOTTERY PROCEEDS FOR EDUCATION

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<u>ELEMENTARY AND SECONDARY EDUCATION</u>	
• Character Education	\$ 250,000
• A+ Schools	12,563,100
• Safe Schools/Alternative Schools	4,122,368
• Advanced Placement/Dual Credit	711,786
• Transportation	78,371,749
• Early Childhood Special Education	6,460,897
* Early Childhood Special Education	10,087,610
• Special Education	3,762,000
• Gifted	198,351
• DSS/DMH Public Placements	7,768,606
• Research Contract	110,880
• Early Grade Literacy	145,000
• State Schools Operating Maintenance and Repair	342,754
• Vocational Rehabilitation	1,400,000
• Minority Scholarships	200,000
• Scholars Academy	158,156
• Test Development	4,568,630
SUBTOTAL	\$ 131,221,887
<u>HIGHER EDUCATION</u>	
• Four-Year Institutions Operations	\$ 46,969,759
• Four-Year Institutions Operating Maintenance and Repair	18,893,066
• Community Colleges Operations	4,833,814
• Community Colleges Operating Maintenance and Repair	2,062,778
• Missouri College Guarantee Program	2,750,000
SUBTOTAL	\$ 75,509,417
TOTAL	<u>\$ 206,731,304</u>

*Increased funding

ENSURING CHILDREN ARE SAFE AT SCHOOL

Classroom safety should be a priority for students, parents, schools, and policymakers. Students deserve the opportunity to attend schools that are safe and free of violence and disruption. Unfortunately, Missouri students are at risk because state laws do not offer full protection against individuals with weapons or potential employees with a criminal record. Governor Holden is committed to ensuring Missouri children have safe learning environments.

2004 Legislative Initiative Gun-free Schools

Missouri's law should be clear - bringing a gun to school is against Missouri law. The Governor calls on lawmakers to pass the Gun-free Schools Act that:

- Makes it unlawful for any individual to possess a firearm on school property. School property is defined as any public, parochial, parish, or private school.
- Clarifies it is against the law to discharge, or attempt to discharge, a firearm on school property.
- Institutes a Class D felony to carry a concealed weapon into a school facility, punishable by up to four years in prison. If death or injury occurs as a result of possessing a firearm on school property, the penalty increases to the maximum allowable, a Class A felony.

2004 Legislative Initiative School Personnel Background Checks

Currently teachers must have a background check when obtaining their certification. Other school district employees such as aides, custodians, secretaries, and cooks who come into contact with students are not required by state law to have a background check as a condition of their employment. To ensure that Missouri children are safe at school, the Governor supports legislation that:

- Mandates all school district employees who come into contact with students undergo a background check before being employed.
- Assures both state and Federal Bureau of Investigation (FBI) criminal history screenings are conducted.
- Requires prospective school employees to pay for the cost of the background screenings but allows school districts to reimburse the individual.

SUPPORTING HIGHER EDUCATION

The Governor understands that economic growth in the 21st Century is based on knowledge, innovation, and the use of technology. Missouri's higher education system plays a critical role in ensuring Missouri stays at the forefront of these cutting edge advances and in supplying skilled workers that are necessary to stimulate economic growth in the state. An educated workforce is the State of Missouri's most important economic development tool.

Access to Higher Education for Missouri Families

Unfortunately, Missouri's college attendance rate is only 39 percent – the same rate as Arkansas, while Kansas is at 45 percent, Iowa at 53 percent, and Nebraska at 52 percent. This low rate of college participation puts Missouri at a severe economic disadvantage because a lack of skilled workers hinders a state's ability to attract and retain high quality jobs and businesses. A study by the University of Missouri – Columbia, Department of Economics, states that Missouri's low college participation costs the Missouri economy \$37 billion a year.

Compounding the problem of Missouri's low college-going rate is the fact that funding for higher education has been cut significantly in recent years. From Fiscal Year 2002 to Fiscal Year 2004, general revenue appropriations for the Department of Higher Education were cut by \$136 million, or 14 percent. Only four states, Massachusetts, South Carolina, Colorado, and Virginia, cut higher education funding more during this same time period. Missouri's reductions in higher education funding are also significantly more than the four percent national average of funding reductions over the same time period. Although the Department of Higher Education and the higher education institutions have worked to minimize the impact of reduced funding on services, the negative implications of these funding reductions have been significant.

For example, the Fiscal Year 2004 reduction of \$39.7 million in state aid to higher education institutions has resulted in tuition costs at Missouri's public four-year colleges and universities rising by an average of 14.8 percent in the last year. Tuition costs at Missouri's community colleges have risen by an average of 9.3 percent over the same time period. The average Missouri college student

now pays \$1,344 more per year in higher tuition and fees to attend a four-year institution and \$342 more per year to attend a two-year institution. These increases are significantly above those experienced in neighboring states such as Illinois, which saw an 8.4 percent tuition increase at its public four-year institutions and a 6.7 percent increase at its two-year public institutions. In addition to increasing tuition, institutions have been forced to eliminate programs and cut faculty and staff in order to deal with the funding reductions. The tuition increases have placed an enormous financial burden on Missouri students and their families, and have forced an increasing number of students to take on unacceptably high levels of debt in order to pursue a college education.

In addition, Missouri's grant and scholarship programs were reduced by \$589,550 in Fiscal Year 2004 resulting in many students not receiving critical assistance. Reduced financial aid on top of crippling increases in tuition is causing some families with lower and middle incomes to no longer be able to afford the cost of college.

Higher Education Funding Increases

It is imperative to reverse the drastic reductions the General Assembly has made to higher education funding. Such cuts to education lead to spiraling tuition, fewer trained workers, and a weakened future economy. Governor Holden's budget for Fiscal Year 2005 provides a total of \$1.1 billion for the Department of Higher Education. The Governor's commitment to higher education is illustrated by the fact that, even in the face of significant revenue shortfalls, the Fiscal Year 2005 budget includes a \$41.5 million funding increase for Missouri's two- and four-year higher education institutions. This restores the cut made by the General Assembly in Fiscal Year 2004.

In addition, Governor Holden has recommended funding increases for two of Missouri's grant and scholarship programs. The Vietnam Veterans' Survivors Scholarship Program provides higher education scholarships to the children and spouses of veterans of the Vietnam War whose death was caused by exposure to toxic chemicals. The Public Service Survivor Grant Program provides grants for higher education expenses for the children and spouses of public employees killed or permanently and totally disabled in the line of duty. Governor Holden has recommended an additional \$45,830 for these programs to ensure that all qualified applicants will receive grants and scholarships.

Jobs Now

Missouri must not only increase the percentage of Missouri high school graduates going to college but increase enrollment in high-demand degrees. This will, in turn, attract high-tech businesses to the state. The Governor's Jobs Now proposal (outlined in the "Building Jobs for the Future" chapter of the *Budget and Legislative Agenda*) will encourage Missouri's higher education students to pursue fields of study that will lead to employment in high-demand occupational fields with Missouri companies. For over twenty years, the Missouri Higher Education Loan Authority (MOHELA) has offered Missouri students and parents the lowest interest rates for student loans in the nation. Through a cooperative effort between MOHELA, the Department of Higher Education, and the Department of Economic Development, excess yields in MOHELA's revenue bonds will be set aside for this initiative. To address Missouri's immediate and future workforce needs, \$3 million annually will be made available in student loans for those pursuing degrees in math or science. Loan forgiveness will also be granted for those students who go to work at Missouri life science companies after graduation (\$18 million over the next six years).

ENHANCING REVENUE FOR EDUCATION

In Fiscal Year 2005, Governor Holden will, once again, make protecting education a top priority. Although budget cuts have already been deep, Governor Holden's Fiscal Year 2005 budget contains additional reductions, but not to education. Despite these spending reductions, there is still not enough revenue to cover mandatory increases in health care and prison costs, and protect education funding. Therefore, Governor Holden calls upon the General Assembly to choose children and the state's chances for future economic success over corporate tax loopholes.

In addition to these targeted revenue enhancements, the Governor recommends legislation that will require the Missouri General Assembly to approve any future changes to the state tax structure that currently occur automatically as a result of federal action. This applies to all changes that either increase or decrease revenue. Currently, the Missouri tax code is tied tightly to the federal tax code. The President and the United States Congress can change Missouri tax policy even if the change negatively damages the state's revenues. In the past few fiscal years, the state has lost over \$276 million in tax revenue because of this coupling. Missouri should be given the opportunity to weigh federal changes to ensure they are in the best interest of the state and its citizens. This will help proactively protect education from unexpected changes in collections caused by additional federal tax code changes.

2004 Legislative Initiative Funding for Education

The Governor calls on the General Assembly to raise \$520 million for public education by closing tax loopholes and targeting revenues to protect education.

Closing Special Corporate Tax Loopholes

Missouri must stop giving away limited state resources through special tax loopholes that benefit a few wealthy corporations. At the same time, tax loopholes that do not expand the economy must be eliminated. Closing these loopholes will save \$121 million.

Geoffrey loophole - \$11.3 million. National franchises set up dummy corporations in other states to avoid a large portion of Missouri taxes. Illinois and 25 other states have provisions to close this loophole.

Disallow non-Missouri source income - \$23.3 million. Missouri may be the only state that allows corporations to avoid paying state taxes on income from out-of-state investments.

Refunds to purchasers - \$7.5 million. Currently, a business that applies for and receives a sales tax refund for taxes they have inappropriately collected from customers is not required to even attempt to find and return the overpayment to the purchaser. Businesses should not keep this money.

Disallow single factor - \$57.9 million. Unlike most states, Missouri gives corporate taxpayers a choice on how to apportion income to Missouri versus other states.

Common carriers - \$7.4 million. Years ago the legislature enacted sales tax exemptions for "common carriers." Carriers were required to register with the federal government, allowing only true common carriers (i.e., trucking companies for hire) to qualify. Today a substantial number of companies form trucking subsidiaries in order to claim these exemptions.

Eliminate timely filing discount for withholding tax - \$13.8 million. Missouri businesses receive a discount for sending the income withholding taxes they collect from employees to the state. Missouri is the only state that provides this discount.

Targeted Revenue Increases to Protect Education

In addition to eliminating loopholes, Governor Holden recommends increasing targeted revenue sources by \$399 million to protect education.

Increase gaming revenues - \$115.7 million. Increase the adjusted gross receipts tax from 20 to 22 percent, generating \$24.5 million. Riverboat operators pay this tax which is based on the amount of money lost by patrons. The state share will increase from 18 to 20 percent and the local share of two percent will remain the same. In addition, the current \$2 admission fee charged for each two-hour cruise will be changed to a flat daily fee of \$7, generating \$51.1 million. Missouri is the only state with a loss limit on riverboat gaming; eliminating loss limits will generate \$40.1 million.

Increase the cigarette tax - \$222.4 million. Increase the tax on a pack of cigarettes from 17 cents to 72 cents and the tax on other tobacco products from ten percent of wholesale price to thirty percent. Tobacco use in Missouri is one of the highest in the nation — 27 percent of adults smoke and one-third of teenagers are smoking. Currently, Missouri's cigarette tax is fifth from the bottom of all states. The increased tax would move Missouri to about the average rate across the nation, but still below both Illinois and Kansas.

Implement a surcharge on incomes greater than \$200,000 - \$11.9 million. Place a surcharge of five percent on the tax paid by those with taxable incomes greater than \$200,000. The surcharge would be approximately \$600, a one-half percent increase that affects only 1.4 percent of taxpayers.

Decouple from the federal tax code. The General Assembly should approve any changes in the federal tax statutes before they can affect Missouri tax revenues.

Accelerated depreciation - \$48.8 million. In 2002, the General Assembly passed a one-year moratorium on federal accelerated depreciation. Missouri should permanently eliminate the use of federal accelerated depreciation on state tax returns. It will still be allowed on federal returns.

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Building Jobs for the Future

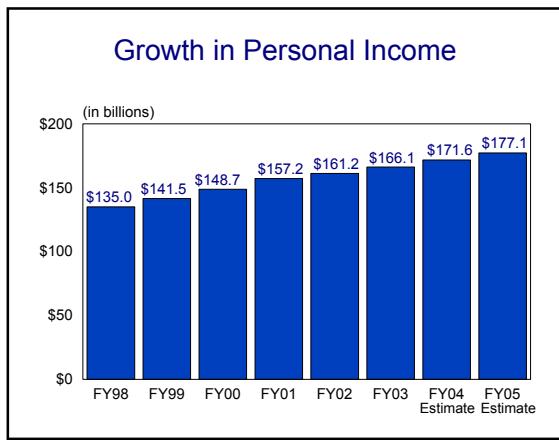
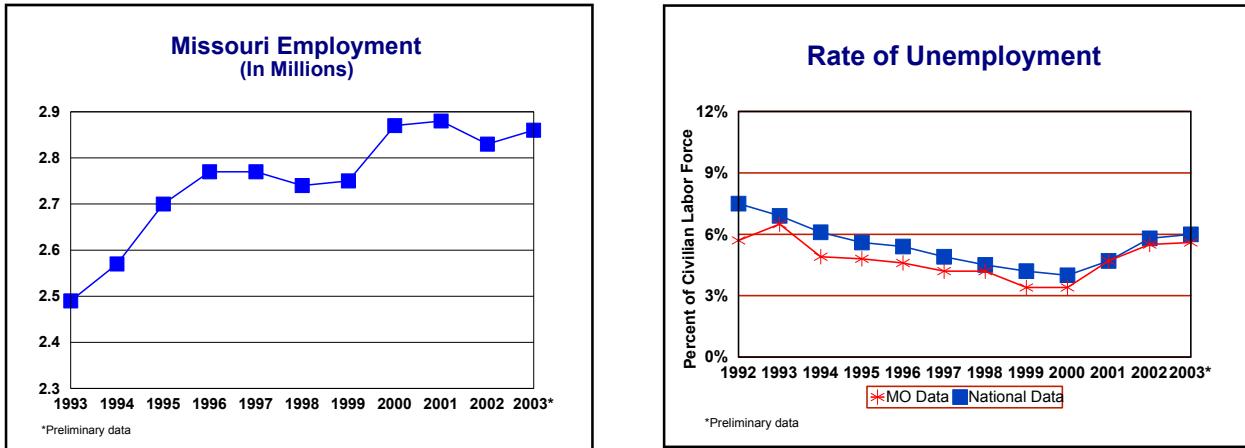
"Nothing is more important to the future of Missouri's families, businesses, and communities than jobs."

Governor Bob Holden

Missouri's economy is gaining momentum. The economic downturn in 2001 was exacerbated by events such as September 11, corporate scandals, and the ongoing war overseas. Missouri's economy is now showing improvement in several key economic indicators, as reported by the Department of Economic Development, including:

- An increase in Missouri employment of over 30,000 since January 2003. The national economy lost more than 220,000 jobs during the same time. Missouri is eighth of all states in terms of job growth since the beginning of the year. Missouri has created more jobs than all of its surrounding states.
- A declaration from Economy.com that Missouri is no longer in a recession, unlike 20 states including Illinois, Nebraska, Oklahoma, and Kentucky.
- A decrease in the number of Missourians unemployed. The state's unemployment rate fell to 5.0 percent in November 2003, well below the national rate of 5.9 percent.
- Growth in real personal income that generally mirrors that of the nation.
- Stabilization of manufacturing employment in early 2003. More than three-fourths of states have lost more manufacturing jobs than Missouri this year.
- An increase in Missouri's Purchasing Managers' Index (PMI) in November 2003. This index measures new orders, production, inventories, prices, import orders, and exports.
- An increase in the number of private businesses.

Missouri must sustain this momentum, build on the successful strategies employed to date, and explore new and innovative ways to expand the state's economy. Governor Holden will continue to lead Missouri through this period of economic recovery and create jobs for the new economy. Missouri's economic future depends on the investment choices made today. The Governor's Fiscal Year 2005 *Budget and Legislative Agenda* focuses on creating jobs for Missouri's future.



In his first three years, Governor Holden accomplished the following to improve the state's economy and streamline state government:

- Worked with state and local officials to preserve existing jobs and expand Missouri businesses. These efforts included keeping Ford Motor Company's Hazelwood assembly plant open, ultimately saving 2,600 jobs; expanding CitiMortgage to a new facility in O'Fallon, retaining 3,500 jobs and creating another 1,500; securing the opening of the MasterCard Global Technology & Operations headquarters in O'Fallon, retaining 1,000 jobs and adding another 1,000; announcing the sale of Boeing jet fighters to South Korea, saving jobs of 1,000 Boeing workers; and keeping the American Airlines maintenance overhaul base in Kansas City open to retain 1,700 jobs.
- Awarded state Tax Increment Financing (TIF) funding to help build portions of the Internal Revenue Service Center project in

Kansas City. The project will move 6,000 workers into downtown Kansas City and create 1,800 new jobs.

- Issued an executive order requiring state government to purchase goods and services from in-state companies when quality and price compare to out-of-state vendors. The order also requires that evaluations include the economic impact the state's purchase will have on the Missouri economy.
- Supported legislation that created the Missouri Downtown and Rural Economic Stimulus Act to facilitate the redevelopment of downtown areas and create jobs by assisting communities with infrastructure development and business attraction. Rural communities will benefit from opportunities to build renewable fuel production facilities. House Bill 289 was signed into law July 7, 2003.

- Led a trade mission to Mexico that produced an estimated \$300 million in new business for Missouri companies.
- Convened an Economic Prosperity Summit with leaders of business, government, education, labor, and other groups to help determine the direction Missouri should take to ensure long-term economic growth.
- Hosted the 34th Annual Meeting of the Midwestern Governors' Conference. The Governor was elected chair of the bi-partisan Midwestern Governors' Conference and selected the theme for the conference: Investments for the Knowledge-Based Economy.
- Supported the development of the first State Technology Plan to implement the best uses of the state's limited funds to advance economic development for citizens and businesses.
- Issued an executive order establishing a Life Sciences Research Committee to leverage private and public funding resources that will provide research opportunities for Missouri's colleges and universities. The Governor also signed legislation that provides a boost to life sciences research. House Bill 688 was signed into law July 10, 2003.
- Ordered the development of a more customer-friendly way to access information about jobs and career planning services. The new web site not only provides job seekers better access to employment opportunities, it also gives employers better access to qualified workers.
- Proposed legislation to better use the state's job training incentives and provide training for employees of life sciences and medical research companies. Senate Bill 500 was signed into law June 20, 2001.
- Issued an executive order supporting downtown revitalization and historic preservation efforts. The order has encouraged new state buildings and leased facilities to be located in central downtown districts throughout the state.
- Appointed the One Missouri, One Agriculture Task Force to examine ways to improve the state's agricultural industry. In 2002, the Governor signed legislation that enacted many of the recommendations made by the task force. House Bill 1348 enhances ethanol and biodiesel production, strengthens the state's AgriMissouri Marketing Program, and authorizes the Missouri Department of Agriculture to certify products as organic.
- Elected chairman of the Governors' Ethanol Coalition that consists of 27 governors and representatives of four foreign nations. The coalition works to increase the use of ethanol-based fuels, decrease the nation's dependence on imported energy resources, improve the environment, and stimulate the economy.
- Supported legislation creating the Farmland Protection Act. The bill also created additional jobs and opportunities for small entrepreneurs through the Agricultural Product Utilization Contributor and New Generation Cooperative Incentive Program. Senate Bill 462 was signed into law June 28, 2001.
- Consolidated motor carrier services from several state agencies to provide a "one-stop shop" for commercial vehicles that do business with the state.
- Transferred the Division of Highway Safety from the Department of Public Safety to the Department of Transportation to consolidate highway safety activities.
- Developed a One Missouri Transportation Plan to address the state's long-standing transportation infrastructure needs.
- Transferred the workforce and Parents' Fair Share functions from the Department of Social Services to the Department of Economic Development. The move will improve access to employment and training options for Missourians who are transferring from welfare to work.

CREATING JOBS

Without good jobs, Missouri will not have the kind of sustained economic growth it needs to ensure a bright future for citizens in all parts of the state. Governor Holden proposes new initiatives to stimulate economic growth and create jobs immediately.

Jobs Now

Building on the momentum of Missouri's recovering economy, Governor Holden announced Jobs Now in December 2003. Jobs Now is a comprehensive plan to accelerate the progress of the state's economy as it emerges from the national recession. Jobs Now will create new, high-wage job opportunities by directing existing resources to make targeted investments in critical infrastructure, help stimulate the growth of our targeted industries like the plant and life sciences, and provide increased funding to ensure a highly skilled workforce in the state. Highlights of Governor Holden's Jobs Now proposal include:

- Establishing a "Missouri Jobs Fund" to provide grants and loans for critical infrastructure in communities, to leverage federal funding sources, and to target investments in sectors with a high probability of creating jobs in the future like plant and life sciences.
- Making targeted infrastructure investments to create sustainable, high-wage jobs for the future by creating the Life Sciences Research District Program. This allows incremental state and local tax revenues from designated life science companies to be dedicated to life sciences research programs at universities. There will also be increased efforts to strengthen collaborations between business and research institutions to help ensure that research is commercialized into products and jobs that benefit Missouri's economy.
- Providing student loans for college students pursuing degrees in math and science and offering loan forgiveness for post-graduate employment with a Missouri life sciences company.

- Leveraging untapped federal funds for infrastructure development to assist local governments with projects that have significant local economic impact and to target projects that have the greatest job creation potential.
- Strengthening and expanding job training opportunities for Missouri workers by authorizing flexibility in the Community College New Jobs Training Program. In addition, companies that partner with others will receive priority when applying for state job training grants.
- Stimulating economic growth through public infrastructure grants and loans for projects such as water and sewer facilities, broadband telecommunication systems, public buildings, airports, water ports, and road and bridge improvements.
- Redirecting existing revenues to make Jobs Now cost neutral to the state budget. This will be accomplished by repealing or improving several outdated and inefficient tax credit programs.

To promote economic and workforce development, the Governor's Fiscal Year 2005 budget includes:

- \$6.5 million for training and career development opportunities to help low-income families find and retain jobs. The project will focus on developing partnerships with Missouri employers. Temporary Assistance for Needy Families (TANF) bonus dollars will be leveraged to gain additional resources for curriculum development and career pathway training with partnering community colleges and industries.
- \$500,000 for the Arts Council to match available federal funds. Funding for the arts attracts tourists and spurs economic activity that positively impacts Missouri's state and local economies.

- \$688,477 to implement the Missouri Downtown and Rural Economic Stimulus Act as authorized by House Bill 289 (2003).
- Establishing the Jobs Now Investment to allow the Missouri Development Finance Board to issue bonds for grants and loans to public entities, colleges, and universities.

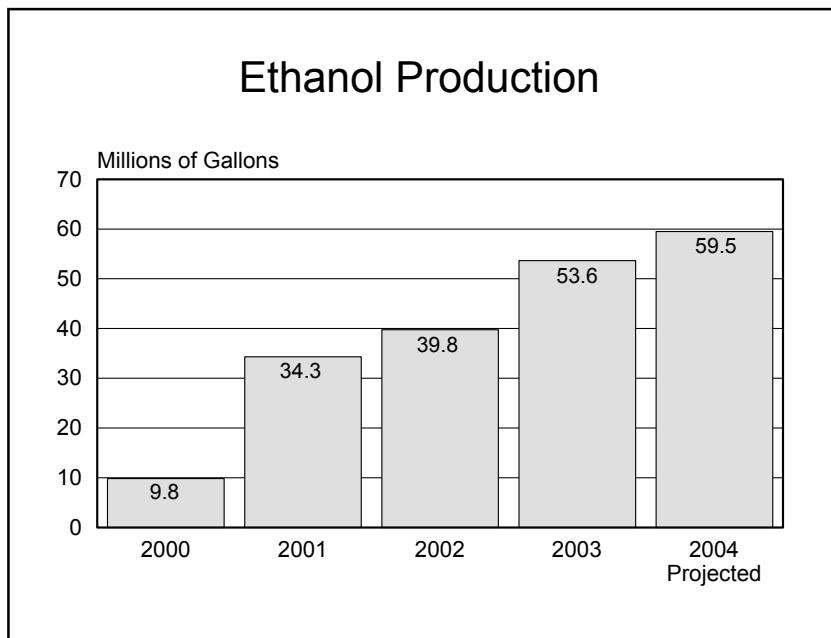
New Strategies to Promote Agricultural Growth

The viability of Missouri's small farms and rural communities is at risk if farmers do not have access to capital that adds value to the agricultural products they produce. Ethanol-based fuel improves air quality and increases the productivity of Missouri farms. The Missouri Ethanol Producer Incentive Fund provides economic subsidies to qualified ethanol producers. At maximum capacity, the plants in Macon and Holt counties can process 23.5 million bushels of corn that will produce 60 million gallons of ethanol each year. In 2005, two new plants are expected to open. The Malta Bend plant will be a 40 million gallon capacity plant and the Laddonia plant will have a maximum output of 20 million gallons. Combined, Missouri will be able to process 34 million bushels of corn each year to produce 120 million gallons of ethanol. The Governor supports full funding of Missouri's

ethanol program. Toward that end, he has directed the Department of Agriculture to work with the General Assembly to develop a designated funding source that will provide additional incentives and draw down new federal funding. In addition, the Governor's Fiscal Year 2005 budget includes a \$9.9 million increase in appropriation authority to fully fund the program and provide support for all four Missouri ethanol plants.

Also, the Governor's budget recommendations contain increases for the Department of Agriculture, including:

- \$334,436 to enhance animal disease prevention and ensure a safe, wholesome food supply.
- \$146,302 to coordinate a hypoxia project that will help Missouri producers reduce nitrogen levels in water runoff.
- \$127,500 to administer the organic certification program authorized by House Bill 1348 (2002).
- \$125,000 for education programs to encourage Missouri youth to consider farming as a profession.



Tax Credit Accountability

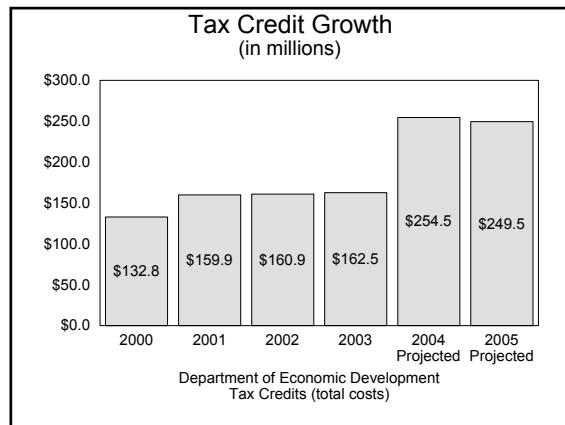
Missouri's economic development programs are designed to leverage private sector investments in the state's businesses or communities which would not otherwise occur. Even though individual tax credit programs were enacted to achieve a specific goal, the state should know whether all the programs continue to produce a good return on the public's investment through foregone tax revenue. Currently, there are 53 tax credit programs authorized by law. Thirty-five of those programs have been enacted by the General Assembly since 1990. Many of these

programs have produced outstanding results for businesses, communities, and the state. Others, however, should be eliminated, modernized, or reformed because they have not fulfilled their promise or have provided an inadequate return on the state's investment. While some incentive programs provide statutory directives for oversight, many do not. Governor Holden wants to ensure that those who work with or receive tax credits are held to the highest level of accountability. The Fiscal Year 2005 budget includes \$282,855 to develop a tax credit compliance and auditing unit that will provide accountability oversight for existing tax credit programs.

2004 Legislative Initiative Tax Credit Accountability

Governor Holden has included tax credit accountability proposals in his legislative package for the past two years and again calls on the General Assembly to pass a bill that:

- Strengthens Missouri's law related to the "claw back" provision, enabling the state to more aggressively pursue those who fail to fulfill their promise to create jobs, build businesses or community projects, or those who attempt to defraud the state.
- Expands public access to tax credit information and increases reporting requirements by state agencies.
- Grants state departments the authority to verify information that tax credit applicants submit and provides the necessary staff to conduct comprehensive tax credit audits.
- Strengthens the information requirements submitted prior to tax credit issuance and provides penalties for failure to supply information.
- Requires a review of all current tax credit programs to ensure they are generating the benefit for which they were originally passed and repeals or reforms those tax credits that are inefficient or ineffective.



Protecting Missouri's Transportation Infrastructure

Missouri's position at the center of the nation makes it a transportation hub for national and international traffic, but people and goods cannot be moved efficiently when the roads and bridges are in poor condition. To benefit from the economic advantages of being a transportation hub, the state's infrastructure must be adequately maintained.

For Fiscal Year 2005, Governor Holden recommends the following for the Missouri Department of Transportation (MoDOT):

- \$121.9 million for road and bridge construction and maintenance.
- \$2.5 million for additional federal transportation enhancement projects.
- \$1.1 million for a program to assist new commercial motor carriers in meeting required safety standards.
- \$1.2 million to maintain daily, round-trip, passenger rail service between St. Louis and Kansas City. Passenger rail service provided an alternate mode of transportation for over 167,000 passengers last year.

An Accountable Transportation System

Missouri's economic future depends upon the development of an effective and efficient total transportation system. It is a known problem - transportation resources are insufficient to meet our needs. On August 6, 2002, Missouri voters defeated a proposal to increase funding for Missouri highways. The Governor has since called on MoDOT to take action to increase accountability to the taxpayers and restore the credibility of the department. Missourians should be confident that their tax dollars for roads, bridges, repairs, and construction are spent wisely.

Missouri's Constitution places control of the state Department of Transportation with a six-member commission, not with the Governor. The Governor does not hire the director, nor does he have any direct authority over the department. The current system of oversight is not working as effectively as it should.

Governor Holden recommends restructuring the Missouri Highways and Transportation Commission and the Department of Transportation. Missouri citizens expect a better transportation system and this restructuring will facilitate desperately needed improvements. The Governor proposes expanding the size of the commission to provide wider representation of citizens in decisions affecting the use of transportation resources. The commission, under this proposal, will be charged with annually approving the Statewide Transportation Improvement Plan. A director appointed by the Governor will be more directly accountable to Missouri citizens for the appropriate use of transportation resources.

In addition, the Governor recommends limiting highway fund use to the Department of Transportation; Highway Patrol for enforcement of traffic safety laws; driving while intoxicated programs; costs of collecting highway funds; and fringe benefit, leasing, and other direct payments for staff performing these functions. This should result in additional funds being available for road and bridge construction and maintenance.

By implementing accountability measures, the department achieved savings of over \$5 million in 2003. Improved management practices include changes in fleet management and making better use of available technology. MoDOT has also made it a priority to do a better job at estimating project costs. In 2003, MoDOT was recognized nationally for its successful estimating process. This achievement saved Missouri taxpayers more than \$4 million because excessive bids were rejected and rebid. Finally, MoDOT is making a concerted effort to improve communication with elected officials, local planning groups, and citizens within the state by involving more people in the planning process.

2004 Legislative Initiative The Transportation Accountability Act

To improve the Department of Transportation, the Governor proposes the General Assembly enact a resolution to send to Missouri voters that will:

- Give the Governor the authority to appoint the Director of Transportation. This position will be accountable to the Governor like the majority of other state cabinet directors.
- Transfer various duties from the Missouri Highways and Transportation Commission to the Director of Transportation. The transfer will take effect on January 1, 2006.
- Require approval of the annual Statewide Transportation Improvement Plan by the transportation commission. The commission will also advise the department director on transportation issues.
- Expand representation on the commission by increasing the number of members from six to nine, with one member coming from each United States Congressional District.
- Limit the use of highway funding to the Department of Transportation; Highway Patrol for enforcement of traffic safety laws; driving while intoxicated programs; costs of collecting highway funds; and fringe benefit, leasing, and other direct payments for staff performing these functions.
- Require the State Auditor to conduct an annual financial audit pertaining to the use of highway funds to ensure compliance with all relevant constitutional and statutory mandates.

The Impact of State Budget Cuts

Deep cuts have already been made to the Missouri budget. Between Fiscal Years 2001 and 2004, about 2,000 positions have been permanently cut from the budget. State departments have worked to minimize the impact of reduced funding on services. However, recent cuts have negatively impacted state and local economies as shown by the following:

Department of Economic Development

- State employees have been cut significantly, particularly general revenue funded staff. These cuts have resulted in reduced services for Missourians and increased workloads for remaining employees. Between Fiscal Years 2001 and 2004, the Department of Economic Development lost 48 percent of its general revenue staff.
- \$6.2 million was cut from the Customized Job Training Program. This has resulted in fewer companies receiving assistance and smaller awards for those that do. Employees receiving training decreased from 35,613 in Fiscal Year 2001 to 24,639 in Fiscal Year 2003, which translates into a less competitive workforce and fewer high-paying jobs.
- \$1.1 million in technology funding cuts have resulted in the elimination of the centers for Advanced Technology and Electronic Materials Applied Research Center programs. The Manufacturing Extension Partnership Program and Innovation Centers have also received less funding. These combined actions mean fewer research projects and fewer companies that are served with technology and commercialization activities. These funding cuts will have a negative impact on the amount of new investment and sales generated by companies that use these programs.
- \$1.1 million was cut from the Community Development Corporation Grant Program, resulting in fewer and smaller awards being made, and placing limits on the types of projects that can be funded. This program focuses on helping underserved low- and

moderate-income persons achieve educational certifications. This has decreased the number of educational and housing projects for these individuals.

- \$750,000 from the marketing budget has made it difficult to recruit and retain businesses. The elimination of the Regional Cooperative Marketing Program has hindered economic development efforts of local communities.
- \$382,000 for the Main Street Program and Rural Development Grants has been eliminated, resulting in the loss of funding to smaller communities. The grants provided assistance in hiring economic development experts to help create more investment and jobs. The elimination of these programs will result in the loss of over \$30 million in potential investments and 600 new jobs.

Department of Agriculture

- Total general revenue staffing has declined 14 percent over the last three years. These reductions have limited the department's ability to ensure consumer protection and improve markets for Missouri agricultural products. For example, the department has lost over one-half of the funding for the AgriMissouri Program, which assists businesses in the development, marketing and promotion of Missouri-made food products. In addition, the department has lost one-third of its staff that ensures the quality of feed and seed products for Missouri's livestock industry and crop producers. It has also lost one-fourth of its staff that perform propane and anhydrous ammonia safety inspections at public schools, nursing homes, childcare centers, and other public facilities.
- Grain audit staffing has declined 17 percent over the last five years. These staff protect the interests of Missouri grain producers by licensing, bonding, and auditing all businesses that store or purchase grain in the state. The budget reductions are jeopardizing the program's ability to protect grain producers from losses associated with insolvent grain dealers.

- The Animal Health Division closed the Northwest Veterinary Diagnostic Laboratory in Cameron at the end of Fiscal Year 2003. This facility handled the laboratory component of the State Meat and Poultry Inspection Program and provided diagnostic testing for animal diseases.

Department of Natural Resources

- The Department of Natural Resources has lost 37 percent of its general revenue staff.
- Funding for historic preservation loans and grants has been eliminated. These provided financial assistance for the preservation of endangered properties. Local county historical societies, preservation organizations, and not-for-profit organizations used these loans and grants for up-front capital to acquire or stabilize historic properties.

Department of Transportation

- The Department of Transportation has lost 56 percent of its general revenue staff.
- Operating assistance for transit providers has been reduced by over \$4.6 million since Fiscal Year 2002, eliminating approximately 1.3 million trips. Many people who are not able to drive, or do not own a vehicle, rely on public transportation to get to work, get to medical appointments, and carry out other daily activities.
- The Missouri Elderly and Handicapped Transportation Assistance Program (MEHTAP) was cut by nearly \$150,000, eliminating approximately 29,400 trips in 2004. MEHTAP provides operating assistance to local, non-profit transportation providers, many of which are located in rural areas.

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Missouri is a Safe, Healthy Place to Live and Work

"My goal continues to be to protect the most vulnerable Missourians and provide a continued investment that ensures a safe and healthy Missouri."

Governor Bob Holden

Governor Holden is committed to improving the health and safety of Missouri citizens. The Governor has repeatedly stated his commitment to protect those Missouri citizens who rely on vital government services and has taken significant action to make Missouri a safer place to live. Consistent with his accomplishments over the past three years, the Governor's Fiscal Year 2005 *Budget and Legislative Agenda* provides additional means to protect Missourians.

In his first three years, Governor Holden accomplished the following to improve the state's investment in improving the health of Missourians and making our communities a safe place to live and work:

Homeland Security

- Appointed the nation's first state Homeland Security Advisor. The Governor also created the Missouri Security Panel, composed of statewide elected officials, state government employees, local law enforcement, private citizens, and other relevant officials. The panel assessed the readiness of the state and its communities to deter, prevent, and appropriately respond to acts of terrorism in Missouri.
- Initiated homeland security legislation to implement recommendations of the Missouri Security Panel and enhance the safety of Missouri citizens. The bill prohibits and penalizes criminal hoaxes, prohibits agroterrorism, directs the State Emergency Management Agency to activate volunteers during a broader range of disasters, permits the Missouri State Water Patrol to close dangerous waterways, outlaws hazardous materials in or near tunnels, and strengthens laws against assisting terrorists. Senate Bill 712 was signed into law July 1, 2002.

- Signed six executive orders in 2003 to increase Missouri's homeland security preparedness and establish a better system of radio connectivity between public safety and the emergency response community.

Public Safety

- Supported legislation to strengthen the state's driving while intoxicated laws. The legal limit for blood alcohol content was lowered to .08 and stronger penalties were established for repeat offenders. As a result, the diversion of \$8 million in federal highway funds was avoided, and Missouri will qualify for an estimated \$3 million in federal incentive funds. House Bill 302 was signed into law June 12, 2001.
- Supported legislation to prevent criminals with outstanding warrants for their arrest from being released from jail. Jake's Law, House Bill 144, was signed into law May 31, 2001. The bill is named in memory of Jake Robel who died tragically in February 2000.

- Recommended legislation to protect Missourians from sexual offenders by removing the statute of limitations for prosecution of forcible rape and forcible sodomy cases. House Bill 1037 and Senate Bill 650 were signed into law March 6, 2002.
 - Signed crime-related legislation that prevents offenders convicted of certain sexual assault crimes from being released from prison during the appeals process. Senate Bill 969 was signed into law July 10, 2002.
 - Signed legislation to crack down on so-called “club drugs” such as Ecstasy and GHB. GHB’s sedative effects have been associated with sexual assault. The measure also toughens the state’s laws dealing with methamphetamine. House Bill 471 was signed June 18, 2001.
 - Added new crimes to the classification of dangerous felonies. Also, increased penalties for theft of any material used to manufacture methamphetamine. Senate Bill 5 was signed into law June 27, 2003.
 - Supported legislation to sustain the most successful Substance Abuse Treatment Offenders Program (SATOP) in the country. SATOP is an education and treatment program for persons convicted of alcohol-related driving offenses. House Bill 600 was signed by the Governor July 1, 2003.
 - Supported legislation to improve the current system of providing background screenings through the state’s Family Care Safety Registry. Senate Bill 184 was signed into law July 11, 2003. It will reduce duplicative efforts and increase the number of crimes screened, including sexual offenses.
- health plans to notify all enrollees about cancer screenings offered as benefits and expands Medicaid coverage to low-income women diagnosed with breast and cervical cancer. House Bill 762 was signed into law June 21, 2001.
- Recommended legislation to ensure continued access to health care for Missouri children. The successful State Childrens’ Health Insurance Program (SCHIP) offers health insurance coverage to uninsured children at a cost to the state of about \$300 per year per child. Results show that children in SCHIP have better school attendance and less emergency room visits. The General Assembly originally enacted legislation to expand health care coverage through SCHIP in 1998; however, the program was time limited. Governor Holden called on the General Assembly to continue this program that provides vital health care for Missouri’s children. House Bill 1926 was signed into law June 5, 2002.
 - Supported legislation requiring health insurers to promptly pay claims to physicians and other providers. House Bills 328 was signed into law July 6, 2001.
 - Supported legislation aimed at addressing the waiting list for services provided by the Department of Mental Health. The legislation develops a plan to address the increasing numbers of families who give up custody of their children just so they can receive critical mental health services. Senate Bill 266 was signed into law July 1, 2003.
 - Supported legislation to curb underage smoking by making it illegal for minors to possess tobacco products. House Bill 381 was signed into law July 13, 2001.

Health Care

- Called for legislation to provide comprehensive protection for women’s health to improve the lives and life expectancies of women in Missouri. This important law provides women direct access to obstetricians and gynecologists, and grants them access to critical contraceptive coverage. It also requires

Protection of Women and Children

- Created a Domestic Violence Task Force by executive order to conduct an inventory of state funding for domestic violence programs, enhance public and private resources, investigate opportunities to expand prevention and intervention services, and develop a statewide action plan. The Governor signed into law House Bill 1814 in 2002, which implements

recommendations made by the task force. The bill removes obstacles to obtaining and enforcing protection orders for victims of domestic violence or stalking, makes it easier for victims to go to court without having to interact with their abuser, and simplifies the procedure for enforcing a protection order from another state.

- Proposed legislation to better coordinate state services to victims by establishing the Office of Victims of Crime. Senate Bill 267 was signed into law July 2, 2001 and provides a central point of contact for crime victims in Missouri.
 - Created the crime of “child enticement” to combat the luring of children into dangerous circumstances by child abusers. Senate Bill 969 was signed into law July 10, 2002.
 - Established the Missouri School Violence Hotline to protect the state’s school children. The hotline is a joint effort of the Departments of Public Safety, Social Services, and Elementary and Secondary Education. Students, parents, and school personnel are encouraged to report physical acts, threats, bullying, intimidation, fights, and weapons on school property.
 - Created a statewide alert system, Alert Missouri, to notify media, law enforcement, and the public of child abductions. The plan is based on the AMBER Alert System, which is named after Amber Hagerman, a nine-year-old from Texas who was abducted and murdered in 1996.
- Recommended legislation to provide relief to seniors for the high costs of prescription drugs. The bill established the Missouri Senior Rx Program to provide benefits to low-income seniors. House Bill 3 and Senate Bill 4 were signed into law October 5, 2001.
 - Signed legislation to reorganize the former Division of Aging and Department of Health to form a new Department of Health and Senior Services. The bill also established a State Board of Senior Services to advise the department about rules, regulations, and operations related to senior services. House Bill 603 was signed into law June 26, 2001.
 - Established a website to help Missourians make informed choices about long-term care facilities. Missourians can go to www.dhss.mo.state.us/showmelongtermcare to learn about a facility’s latest inspection, including whether the facility had any violations and if they have been corrected.
 - Proposed legislation to enhance regulation of long-term care insurance policies for seniors. Missouri’s law that governs the sale of long-term care insurance allowed insurers to price long-term care policies cheaply and then significantly increase rates as the insured person ages. This legislation requires insurers to price policies for the long run to avoid large rate hikes later. The Governor signed House Bill 1568 and Senate Bill 1009 in July 2002.

Seniors

- Proposed legislation to protect Missouri’s senior citizens residing in long-term care facilities and those receiving in-home services. Senate Bill 556 strengthens fines for serious law violations, toughens the state’s neglect statute to bar individuals with certain criminal histories from working in the long-term care industry, and rewards good nursing homes that consistently provide quality care. Senate Bill 556 was signed by the Governor June 16, 2003.

Improving Access to Health Care

Governor Holden believes basic health care should be available to all Missourians. Currently 88.4 percent of Missourians have health insurance. This number is down from 2001, but is higher than the 84.8 percent coverage rate for the nation as a whole. All states are currently grappling with the high cost of health care. Health care spending in the United States rose to \$1.3 trillion in 2000, a 6.9 percent increase over 1999. Access to preventive and basic health services save lives and tax dollars. Governor Holden's Fiscal Year 2005 *Budget and Legislative Agenda* includes proposals to expand access to vital health care services for women, the uninsured, low-income individuals, persons with disabilities, and senior citizens.

Comprehensive Health Services for Women

Missouri has made important progress in improving women's health care. Recent initiatives, supported by Governor Holden, require coverage for services such as mammography screenings for breast cancer, breast reconstruction following a mastectomy, cervical cancer screenings, and direct access to obstetricians and gynecologists. To continue Missouri's progress in expanding access to basic health care services, the Governor's Fiscal Year 2005 budget includes \$5 million for comprehensive health services for low-income individuals with unmet health needs such as screenings, education, treatment for chronic and infectious diseases, and reproductive health services.

Access to Contraception Services

Every tax dollar spent for contraceptive services saves an average of three dollars in Medicaid costs for pregnancy-related care and for medical care for newborns. In addition, these services prevent abortions. The Governor has fought to protect family planning and contraceptive services for Missouri women throughout his administration.

In its 1965 landmark ruling, the United States Supreme Court recognized a constitutional right to privacy in *Griswold vs. Connecticut*. The ruling recognized that married couples have the right to obtain and use contraception, free from unreasonable government intrusion. The case centered around a Connecticut law that forbade the use of contraception or assisting anyone seeking contraception. The Governor recommends explicitly codifying the right to contraception in statute to avoid future governmental intrusions into citizens' privacy.

2004 Legislative Initiative Contraception Rights

Women have a right to contraceptive services. To ensure this right, the Governor proposes legislation to guarantee the right to contraceptive services in state law.

Access to Health Care for High-Risk Missourians

Missouri currently has an insurance pool that covers over 2,400 high-risk residents. It is funded by a combination of premiums charged to those who are covered by the pool and assessments to health insurers for costs that exceed the premiums received. These assessments are subsequently taken as tax credits against the insurers' premium taxes owed to the state. Currently, the pool may charge premiums for policies offered to those covered in a range of 150 percent to 200 percent of the standard premium rate. The federal Health Insurance Portability and Accessibility Act of 1996 (HIPAA) guarantees individuals the right to purchase health

insurance if they lose their policies in the group market. Missouri is the only state in the nation that has not made the necessary statutory changes to allow state regulation of this right or to provide individuals with an alternative mechanism with which to accomplish this portability. Making Missouri's health insurance pool the alternative mechanism will allow individuals who lose their group coverage to receive coverage from the pool and waive any pre-existing condition exclusion. Coming into federal compliance enables displaced workers to qualify for premium payments under the Federal Trade Act of 2002. These changes are expected to provide coverage to an additional 6,500 Missourians.

2004 Legislative Initiative High-Risk Insurance Pool Improvements

In order to meet federal requirements and increase the number of Missourians who can benefit from the state's high-risk pool, the Governor recommends legislation to:

- Ensure price stability for premiums paid by high-risk individuals.
- Qualify Missouri's pool as a mechanism to deliver health benefits for purposes of the federal Health Coverage Tax Credit.
- Change the Missouri Health Insurance Pool's board membership to include the director of the Department of Insurance.
- Change the standard premium currently used by the board from 175 percent to 125 percent. Lowering the standard premium makes insurance more affordable for those seeking coverage from the pool.
- Allow insurers a deduction from the gross amount of premiums received prior to calculating premium taxes paid to the state.

Health Insurance Access for Small Businesses

The majority of working Missourians are employed in small businesses. Ninety-four percent of Missouri businesses have 50 or fewer employees. Most individuals who have health insurance are covered as a benefit by their employer. Small businesses, however, are finding it increasingly cost prohibitive to provide health insurance as a benefit for their employees. A small number of large claims within the group can adversely impact the premium charged for coverage. HIPAA guarantees that small employers of 2-50 individuals will be issued a policy, but provided no rating restrictions on that coverage. Missouri's current small group health insurance law provides guaranteed issue and rating restrictions for insurance sold only to employers of 3-25 employees. Groups of 2 employees and of 26-50 employees are currently not protected.

Health Care Access for Low-Income Seniors and Persons with Disabilities

Governor Holden supports continued health care coverage for Missouri's most vulnerable citizens. Missouri is working to strengthen health care coverage through various state programs that provide access to services.

The Governor's Fiscal Year 2005 budget recommendations include:

- \$21.1 million to expand Medicaid eligibility for the elderly and disabled from 90 percent of the federal poverty level to 100 percent of the federal poverty level. The eligibility expansion increases the number of individuals with access to needed health care. Approximately 20,000 elderly and persons with disabilities will be eligible to receive full Medicaid coverage. This completes expansion efforts that began with House Bill 3 which passed during the special legislative session of 2001.
- \$16.8 million for caseload growth in the Department of Mental Health's (DMH) Medicaid programs. DMH will serve approximately 140,000 Missourians and their families, either because they have very limited incomes and must rely on the state for services or because the services they need cannot be found elsewhere.
- \$8.8 million increase to provide early intervention services for developmentally delayed infants. This increase brings total state funding to \$21.6 million. This will provide services to 221 new developmentally delayed infants.
- \$8 million to increase the Personal Care Assistance Program for Medicaid-eligible Missourians, allowing individuals with disabilities to receive services in their homes rather than in a nursing home. This will provide services to an additional 1,500 disabled Missourians.

2004 Legislative Initiative Small Business Health Insurance

In order to protect small businesses from burdensome increases in their health insurance costs, the Governor recommends legislation that will:

- Expand Missouri's statutory definition of small groups to 2-50 employees. This will allow more small employers to benefit from rating restrictions currently applicable only to groups of 3-25 employees. This expansion will provide better rates for more small employers and increase the number of Missourians who are covered by health insurance.
- Give the state Department of Insurance authority to regulate small business insurance coverage.

Mental Health Parity

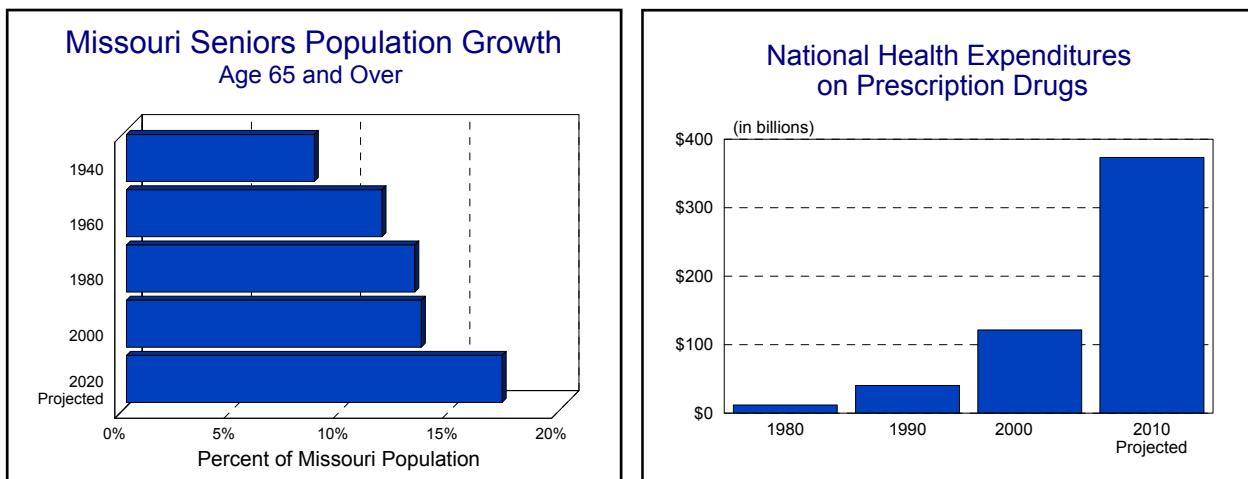
Approximately five percent of American adults have a serious mental illness. Medical research demonstrates that mental illnesses are biologically based and responsive to medical treatment. With treatment, many individuals can lead healthy, productive lives. However, despite the fact that treatment success rates for mental illnesses often exceed those of other chronic physical

illnesses, insurance coverage continues to be more limited. Coverage imposes greater out-of-pocket expenses on patients and their families, creating barriers to treatment and recovery. The United States Surgeon General reports that: “concerns about the cost of care – concerns made worse by the disparity in insurance coverage for mental disorders in contrast to other illnesses – are among the foremost reasons why people do not seek needed mental health care.”

2004 Legislative Initiative Achieving Parity for Mental Health Care Coverage

Under current law, there are several exceptions to the requirement that health insurers that cover services for mental illnesses provide the same coverage as they do for other physical illnesses. Governor Holden supports measures aimed at increasing “parity” in insurance coverage between mental and physical health. Governor Holden supports legislation that:

- Requires health carriers that offer health benefit plans in Missouri to provide coverage for mental health conditions.
- Provides coverage for both outpatient and inpatient services.
- Requires health carriers to comply with parity coverage by January 1, 2005.



Prescription Drug Relief for Missouri Seniors

For too long, the affordability of prescription drugs for Missouri seniors has been a serious concern. Separate insurance to cover prescription drugs is very costly and recent changes to the federal Medicare Program do not take effect until 2006. Many seniors must make difficult choices about which of their prescriptions to forego, possibly leading to serious health care consequences.

In 2001, the General Assembly failed to pass the Governor's prescription drug plan. The Governor called the General Assembly back for a special session to address this important issue. They passed a plan Governor Holden signed into law, creating the Missouri Senior Rx Program, to provide benefits to low-income seniors who need assistance. The legislation also established a commission to oversee the program which is chaired by Lt. Governor Joe Maxwell. The program began July 1, 2002, and is serving about 19,000 low-income seniors. Governor Holden supports this important program and continues to work to increase participation and expand the number of prescription drugs covered. The average annual income for current participants is only \$12,322. After qualifying seniors meet an

annual deductible, the Missouri Senior Rx Program will pay 60 percent of the cost of prescription medications up to a maximum of \$5,000 a year. The Governor's Fiscal Year 2005 budget recommendations include \$7.5 million for increased enrollment in the Missouri Senior Rx Program.

In December 2003, the President signed into law the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. It includes a prescription drug benefit to help seniors with the cost of their medications. Beginning in 2006, the benefit will cover 75 percent of costs up to \$2,250 in total drug costs. It will then pay 95 percent of costs for individuals with drug expenditures over \$5,100 annually. Unfortunately, the measure leaves a large group of seniors without coverage. There is no coverage for those with drug costs between \$2,250 and \$5,100 a year. This gap in coverage – dubbed the “doughnut hole” – requires seniors with prescription drug expenses in this range to continue paying a monthly premium without receiving any benefit. On January 8, 2004, Governor Holden and Lt. Governor Maxwell announced a plan to fill the gap in federal Medicare coverage through Missouri's existing Senior Rx Program.

2004 Legislative Initiative Missouri Prescription Drug Coordination Act

Missouri should utilize its existing prescription drug program for seniors to obtain comprehensive coverage for senior prescription drugs and assist an additional 85,000 to 145,000 Missouri seniors who will be left out of the federal program. In order to fill the gap created by the new federal Medicare Prescription Drug, Improvement, and Modernization Act of 2003, the Governor recommends:

- Providing seamless prescription drug coverage by dovetailing the Missouri Senior Rx Program with the new federal Medicare plan by covering the \$2,850 gap in prescription coverage left by the federal plan. The proposal will ensure that seniors not covered by the federal act will not be forced to cover the gap out of their own pocket.
- Expanding the Missouri Senior Rx Program to fill the gap with no additional cost to the state.
- Mandating all pharmacies that cover Medicaid participants to also cover Missouri Senior Rx Program participants. Drug manufacturers participating in Medicaid should also be required to participate in the Missouri Senior Rx Program.
- Removing the sunset clause on the current Missouri Senior Rx Program. The program is currently required to be reauthorized every four years. The reauthorization should be removed so the program can continue and fill the ongoing gap created by the federal Medicare Program.

PROTECTING MISSOURI'S MOST VULNERABLE CITIZENS

Every child in Missouri is entitled to a safe place to live. It is a right, not a privilege. Governor Holden is firmly and absolutely committed to protecting this right for all of our children. Last year, the Governor initiated an investigation in the wake of the tragic death of two-year-old Dominic James who was residing in a foster home in Willard, Missouri. The investigation's report found Greene County's child welfare system required immediate attention. The Governor proposes significant reform of Missouri's child welfare system.

Steps Taken to Address Missouri's Child Welfare System Problems

Governor Holden has moved swiftly in addressing problems that have been identified with the current child welfare system. To date, the Governor has:

- Conducted an investigation into the Greene County child welfare system. The Governor appointed Richard C. Dunn and Judge Frank Conley in September 2002 to lead this effort. Their investigation was completed in November 2002.
- Established the Office of Child Welfare Ombudsman within the Office of Administration as recommended by the *Report of the Investigation of the Child Welfare System in Greene County*. The ombudsman is responsible for independently promoting public awareness and understanding of the child welfare system; identifying system issues and responses for the Governor and the General Assembly to act upon; and monitoring compliance with state and federal law, rules, and policies pertaining to children's services. The ombudsman will submit an annual report, including recommendations, to the Governor and General Assembly by October 31 of each year. The Department of Social Services will allow the ombudsman to communicate with children in the state's custody, give access to all records and documents necessary in any investigation, and grant the office unrestricted access to the department's case management information system. The state's first child welfare ombudsman was hired in September 2003. The ombudsman is

acting independently on behalf of children, parents, and families to make certain the system provides them with help.

- Directed the Department of Social Services to implement other recommendations found in the *Report of the Investigation of the Child Welfare System in Greene County*.
- Protected funding for children in state custody from withholdings and budget cuts during Fiscal Years 2004 and 2005.
- Created a Children's Division in the Department of Social Services. Reorganization of the department will increase the focus on child protection and streamline all functions dealing with children's services.

Last year, the General Assembly passed House Bill 679 that addressed the state's child welfare system. After a thorough review of the bill, numerous problems were found that would have caused more harm to the system than good. Specific flaws included:

- Limiting subpoena powers to compel testimony from witnesses of abuse. This provision would have severely impaired the state's ability to protect children and bring perpetrators to justice. Without the ability to subpoena the testimony of victims, abusers could go free.
- Changing the standard of proof of abuse from probable cause to preponderance of evidence would have made it harder to legally protect children.

- Requiring all testimony by children to be recorded. Taping the questioning of children about the abuse they endured only adds to the trauma of their ordeal.
 - Taking privatization mandates too far, too fast. Efforts to privatize can only be successful when providers are carefully chosen and effectively monitored. States that have gone in this direction have recommended a well-paced and cautious approach as the key to success. The bill required the state to privatize 50 percent of its case management services within three years. It is not clear whether this would even be possible for certain areas of the state even if the financial resources were available.
- The Governor is committed to improving the state's programs to protect Missouri's abused and neglected children. From the public debate over the last year, many good ideas have emerged and are being implemented by the administration, including:
- Utilizing kinship care, when a child's safety is assured, as the preferred placement for children. Placement with a relative is less traumatic and more effective for children.
 - Expediting permanency for children through more inclusive Family Support Team meetings. These meetings allow parents and helping professionals to work together to meet the best interests of the child. Additional training is being provided to staff to make these meetings more effective.
 - Establishing hotline protocols to identify high-risk children. Dramatic improvements are being made to the Child Abuse and Neglect Hotline, enabling calls for help to be answered more quickly, classified more appropriately, and responded to more efficiently.
 - Enhancing background checks on foster parents and emergency placements. Very early this year, background checks for foster parents and others serving children in state custody will be expanded to include fingerprinting and federal background checks for criminal history.
- Improving coordination between the Departments of Mental Health and Social Services to increase access to mental health services for children. These two departments are currently piloting a project in four counties to make it easier for economically disadvantaged families to obtain mental health services for their children. This spares them from the agony of relinquishing custody of their child so they can qualify for residential treatment and Medicaid services. The departments are working hard to expand successful protocols to the rest of the state.
 - Establishing better lines of communication between the Department of Social Services, the public it serves, and its partners in the child safety network.
 - Reviewing performance-based contracting options with other states and contractors in Missouri to develop appropriate standards. Contracting to achieve positive outcomes for children, in instances where doing so makes both financial and practical sense, is the goal.

State Accreditation

The Child Welfare League of America founded the Council on Accreditation (COA) in 1977. The COA is an international, independent accreditation organization that promotes standards for quality services provided to children and families. COA's accreditation process is designed to facilitate organizational improvement. Accreditation is viewed as a structured means of positive organizational change. Achieving the status of accreditation demonstrates that the entire organization has met the high standards of quality the COA has set. Governor Holden recommends the state work to achieve accreditation over the next five years. Toward that end, his Fiscal Year 2005 budget includes:

- \$9.3 million to begin the process of gaining national COA accreditation for the Children's Division. Children facing abuse or neglect deserve to have a trained and dedicated child welfare team intervene on their behalf. Building a quality system requires the proper training for child welfare

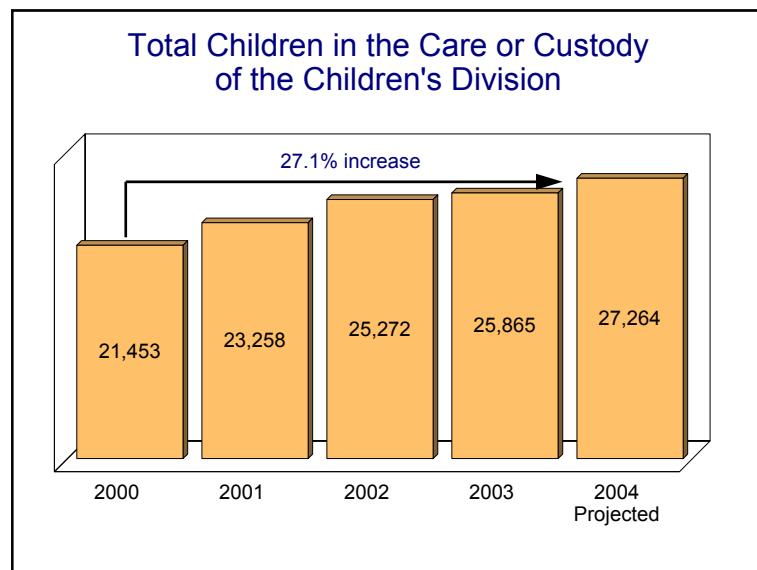
workers and assigning an appropriate number of staff to accomplish the demanding job of protecting every child in the state's care.

- \$1.1 million to provide fingerprint checks against the Missouri State Highway Patrol and the National FBI databases for all those who provide care for children in state custody.

The Governor is committed to working with the General Assembly this year to draft a foster care bill that will create a better child welfare system without jeopardizing the safety of any child. The Governor recommends a bill that codifies efforts already put in place by the Department of Social Services and implements additional protections, including:

- Strengthening the ombudsman program by placing it permanently in the Office of Administration and outlining its duties and authority.
- Requiring foster parents, kinship providers, and anyone over 18 in the home to be screened for possible criminal records.
- Codifying the work between the Departments of Mental Health and Social Services to expand the ability to coordinate services that get children with mental health issues the help they need without forcing parents to relinquish parental rights.

- Encouraging kinship care arrangements, where possible, to keep children with family members and lessen the trauma associated with being removed from their homes.
- Providing timely court hearings for the children placed in foster care and specific time frames for adjudication and dispositional hearings.
- Requiring the Department of Social Services to annually report to the Governor and General Assembly the number of children in the state who are abused and neglected and account for where all children are currently placed.
- Mandating the Department of Social Services to explore best practices and begin implementation of reasonable privatization efforts.
- Obtaining national accreditation of Missouri's child welfare system within five years.
- Providing adequate training and technology to department staff to ensure their mission can be carried out effectively.



Promoting Self-Sufficient Individuals and Families

While providing a safety net for Missouri's citizens who are in temporary need of financial assistance, the Department of Social Services administers programs that can help individuals reach self-sufficiency. The services provided prepare individuals to enter the job market and overcome barriers that prevent them from retaining employment. The Governor's Fiscal Year 2005 budget recommendations include:

- \$5.9 million to provide a cash benefit of \$45 per month to each recipient of the General Relief Program. This benefit can help individuals make co-payments on medication or subsidized rental payments. This is the only cash benefit program available to disabled individuals waiting for a social security disability determination.
- In addition, Missouri received two Temporary Assistance for Needy Families (TANF) bonuses from the federal government as a result of high performance in a variety of program categories during Fiscal Years 2001 and 2002. These one-time bonuses will be invested in programs and technology to help recipients achieve self-sufficiency and move Missourians from welfare to work. The Governor recommends the one-time funding be used as follows:
 - \$6.5 million for the anticipated caseload growth in the TANF Program.
 - \$6.8 million for communication equipment to increase the accuracy and timeliness of application processing for all income maintenance programs.
 - \$2.5 million for the Department of Economic Development to help establish a career ladder for TANF recipients moving from welfare to work. Many working parents remain below the poverty level at entry-level jobs. This program will work with employers to help move TANF recipients out of poverty.
 - \$1 million to help ensure childcare is available for the children of TANF recipients moving from welfare to work.
 - \$4 million for the Department of Economic Development to provide training for TANF recipients as they prepare to enter employment.

PROTECTING MISSOURI CONSUMERS

Missouri consumers have a right to be treated fairly by the companies with which they do business. All Missourians should have equal access to reasonably priced goods and services and should be able to trust the companies they deal with to keep confidential information private. The state works with Missouri consumers every day to ensure these rights are protected. The state does this by investigating and taking action on consumer complaints, offering educational seminars and materials so consumers can make informed decisions, and providing direct assistance when needed. Unfortunately, there will always be some businesses that take advantage of Missouri consumers. In 2002 alone, the Missouri Department of Insurance received over 5,600 consumer complaints and the Missouri Attorney General's Office received thousands of additional complaints. To limit these instances of unfair business practices, the Governor recommends a comprehensive legislative package to protect consumers from credit scoring, loss of their homeowner's insurance following a natural disaster, redlining, payday loan rates, and dangerous lead abatement contractors.

Credit Scoring

The use of credit history as an underwriting tool reportedly began with a study that presumed a correlation between insurance losses and credit scores. Insurance companies establish a premium cost based upon the economic profile and financial stability of the applicant. The use of credit scoring in determining whether to write a policy, and at what price to write the policy, has the potential to adversely impact large segments of our society including farmers, seniors, and minorities. This unfair practice of "credit scoring" leaves thousands of Missourians without insurance coverage and financially vulnerable or with very costly coverage as their only option.

Homeowners' Insurance

Over the past two years, Missourians have been subjected to hailstorms, ice storms, and tornadoes. Many individuals who made claims against their insurance were subjected to further distress when their homeowner's insurance was subsequently not renewed. Further exacerbating the problem, the state's market of last resort cannot provide coverage for many of these individuals because of antiquated limits on the amounts and type of coverage it offers. The Department of Insurance investigated over 400 complaints of this nature in 2002 and 2003. An individual's home is generally their largest lifetime investment. Missourians deserve to be able to protect themselves from the loss of their assets.

Redlining

Insurance is essential to the revitalization of our cities. Without it, banks and other financial institutions will not and cannot make loans. Damaged houses cannot be repaired. New businesses cannot expand and buildings are left to deteriorate. Whether or not discrimination is intentional, traditional practices of the insurance industry adversely affect low-income and minority neighborhoods; thereby, undermining the economic development of our urban communities.

Payday Loans

The title loan, or payday loan, industry is operating under limited regulations in Missouri. As a result, borrowers must pay fees up to 75 percent every time they renew a loan. For example, a \$1,000 loan may end up costing a borrower \$1,750. These practices are financially devastating Missourians across the state. This fast-growing industry should not be allowed to prey on low-income Missourians and those living paycheck to paycheck.

Lead Abatement Contractor Fines

The Department of Health and Senior Services oversees programs related to lead poisoning. The department has had several reported cases of contractors creating significant hazards in homes from which they were removing lead. Homeowners are left not able to return to their homes or with losses of furniture and personal items because of lead contamination by the contractors.

2004 Legislative Initiative Consumer Protection

The Governor seeks several consumer protection initiatives this session to limit credit scoring, protect homeowners' insurance policyholders seeking weather-related claims, prevent insurance redlining, stop payday loan operators from financially devastating borrowers, and penalize lead abatement contractors who create hazards in homes in which they are working. The Governor calls on the General Assembly to:

- Limit the use of credit scoring in determining rates for auto and homeowner's insurance. Current law only limits the use of credit scoring in underwriting.
- Protect consumers of homeowner's insurance policies from being cancelled or not renewed due to weather-related claims or mere inquiries as to whether a loss is covered.
- Ensure that owners of well-maintained properties can purchase good quality insurance at a reasonable price, regardless of the property's geographic location, value, or age.
- Prohibit renewals of payday loans to end the ongoing cycle of debt now allowed under current law. In addition, the proposal will dramatically decrease the cap on charges to consumers from 75 percent to approximately 3 percent per month. Finally, the Attorney General will be given the power to issue and enforce cease and desist orders to stop violators from continuing predatory lending practices.
- Allow the Department of Health and Senior Services to levy fines and take administrative action against a lead abatement contractor's license for violating state statutes and regulations.

KEEPING MISSOURIANS SAFE IN THEIR COMMUNITIES

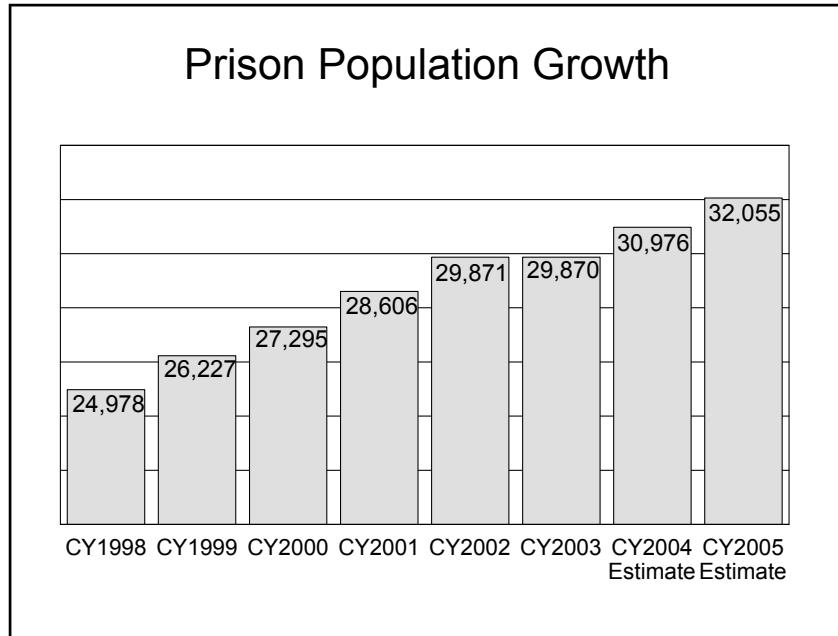
Governor Holden believes state government has an obligation to assist its citizens to live safely in their communities. The Governor's agenda for Fiscal Year 2005 includes initiatives to keep prisoners behind bars, strengthen criminal penalties, provide additional tools to law enforcement, and support Missouri veterans.

Protection from Dangerous and Violent Criminals

Missouri law contains some of the toughest anti-crime provisions in the country. As a result, Missouri now requires dangerous, violent criminals to serve longer sentences than ever before. These "get tough" provisions have resulted in safer Missouri communities and a rapidly expanding prison population. During the last five years, that included two consecutive years of declining revenue, Missouri's inmate population ballooned by more than 22 percent. Missouri state government must continue to meet its obligations to its citizens while living within its means. The department will actively

participate in the implementation of Senate Bill 5 (2003), which promotes the use of community supervision for non-violent offenders who are unlikely to re-offend. Even so, Missouri's prison population is expected to grow from 30,320 in Fiscal Year 2004 to 32,844 in Fiscal Year 2005. To address Missouri's increasing prison population, the Governor's Fiscal Year 2005 budget includes:

- \$3.5 million for offender medical expenses.
- \$2.5 million for offender medical contract costs.
- \$1.2 million for fuel and utilities costs.



Outdated Prison Facilities

The oldest prison west of the Mississippi, the Missouri State Penitentiary, will be closed in Fiscal Year 2005. The sprawling facility had become too costly to operate and has been replaced with a new Jefferson City Correctional Center. With continued budget pressures, it has become necessary to close another inefficient prison. The Chillicothe Correctional Center will be closed and its 525 women offenders will be moved to space in the Tipton Correctional Center. The Chillicothe facility was opened in 1895 as a juvenile detention facility. An assortment of buildings were added through the early 1900s. In 1981, the facility was converted to a correctional center for women offenders. Now, there are looming repair and renovation costs of \$9.7 million. In addition, savings from operating costs in Fiscal Year 2005 will total \$1.7 million, with additional savings in Fiscal Year 2006 of \$1.2 million.

Public Safety Enhancements

The state helps ensure public safety through prevention and treatment of substance abuse, treatment of persons whose mental disabilities make them dangerous to themselves or others, and custody of individuals judged to be sexually violent predators. Governor Holden's Fiscal Year 2005 budget recommendations include:

- \$4.9 million to develop an integrated community-based system of care for children with severe behavioral disorders.
- \$1.2 million to expand the treatment program for sexually violent predators at the Southeast Missouri Mental Health Center. This additional 17-bed ward will provide treatment and housing for those individuals adjudicated by the courts as sexually violent predators. It is projected that the Missouri Sexual Offender Treatment Center will be at full capacity by July 2004.

- \$892,296 to develop a standardized screening and assessment for Missourians with both substance related and mental health disorders.
- \$289,706 to develop evidence-based strategies to reduce underage drinking across the State of Missouri.

Strengthening Criminal Penalties

The Governor's Budget and Legislative Agenda also includes a comprehensive crime package to address the emerging issues of identity theft, sexual offenses against children, home improvement fraud, and cross burning.

Identity Theft

The 1990s spawned a new variety of criminals called identity thieves. Identity theft is a serious and growing crime. People whose identities have been stolen can spend years, and much of their hard-earned money, cleaning up the mess criminals have made of their good name and credit record. Some victims have lost job opportunities, been refused loans, or arrested for crimes they did not commit. Recent surveys found that over 27 million Americans have been identity theft victims in the past five years; almost ten million individuals were victimized in the past year; the average victim spent 600 hours recovering from this crime; and the loss to victims and businesses last year totaled nearly \$5 billion and \$50 billion, respectively.

Sexual Offenses Against Children

It may take victims who have been sexually abused as a child years to come to terms with the emotional scars and come forward to report the abuse. Currently, if it takes more than ten years to come forward, the perpetrator cannot be prosecuted. There are many instances where those who prey on children could be brought to justice; however, time has just run out.

Home Improvement Fraud

U.S. consumers spend more than \$100 billion annually on home improvement projects. Unfortunately, many consumers are victimized by unscrupulous or fraudulent contractors. Home improvement fraud is one of the most frequent consumer complaints. Low-income homeowners and the elderly are disproportionately victimized. Examples of fraud include use of inferior materials, faulty repairs, payment for jobs never completed, or a loan scam where contractors obtain mortgages or give home equity loans with alarmingly high interest rates.

Cross Burning

Historically, cross burning has been used to intimidate and harass racial minorities, religious groups, and other groups hated by the Ku Klux Klan or similar organizations. In April 2003, a United States Supreme Court decision held that burning a cross with the intent of intimidating another is not protected under the First Amendment of the United States Constitution. The decision was based on a case involving a Virginia statute, *Virginia v. Black*. Missouri currently lacks a comparable statute.

2004 Legislative Initiative Combating Crime

Governor Holden proposes changes to Missouri laws in an effort to combat crime and deter criminals from preying on Missouri citizens. The Governor's comprehensive proposal will help bring to justice those who abuse children, steal identities, defraud homeowners, or burn crosses in an attempt to intimidate others. Governor Holden calls on the General Assembly to:

- Expand the statute of limitations for prosecuting a crime for victims of a sexual offense under the age of 18. This will permit the prosecution of a perpetrator for up to 20 years after the victim reaches the age of 18.
- Strengthen existing Missouri law by expanding the definition of identity theft and clarifying specific uses of information that are fraudulent. This will protect information such as an individual's social security number, name, or credit card from being used to open accounts, change mailing addresses, take out a loan, file for bankruptcy, or transfer a victim's property. The penalty for identity theft is also strengthened by making most violations a Class C felony.
- Prohibit the use or possession of document-making equipment that produces false identification cards or documents used in identity theft scams.
- Create the Missouri Home Improvement Fraud Act. The act prohibits contractors from deceiving homeowners to enter into a home improvement contract or misrepresent facts relating to the terms of a contract. It also prohibits payment for improvements at an unreasonable price and payment schemes, such as mortgage agreements that pay the contractor more than the value of the work rendered. Finally, the act outlines standard criteria that must be contained in all home improvement contracts.
- Expand Missouri's Hate Crimes law to prohibit the burning of a cross with the intent to intimidate any individual or group. The proposal also outlines penalties for those who violate the law.

Bail Bond Agent Regulation

Missouri's bail bond law is out of date. The law was enacted twenty years ago and is not consistent with how the bail bond industry operates today. There have been abuses by bail bond agents relating to appropriation of money, the apprehension and surrender of bailees, and the lack of statutory authority over bounty hunters (surety recovery agents). In June 2002, a Kansas City man was killed by bounty hunters, who mistook him for another man.

Bail bond agents may do recovery work themselves or they may hire others to assist them. With no licensing or training requirements, recovery agents and bail bond agents are acting like police officers when they apprehend a bailee. Police officers are required to undergo extensive training related to apprehending suspects. Bail bond licensees should be required to attend minimum training in the areas of apprehension, civil liability, safety of innocent bystanders, surrendering bailees, constitutional law, and weapons use.

Additionally, bail bond agents have access to large amounts of money from consumers of bail services. There are no record keeping requirements under current law. The director of the Department of Insurance may refuse a bail bond license or discipline a bail bond licensee only if the applicant or licensee has a felony conviction. There are many licensees who have, or have subsequently received, misdemeanor convictions for assault, drug offenses, firearm violations, and other crimes. The state should have authority to protect citizens from potential harm by denying or revoking a bail bond or surety recovery agent license. To address this public safety issue, the Governor supports strengthening Missouri's bail bond law.

2004 Legislative Initiative Improving Regulation of the Bail Bond Industry

In order to protect Missourians and better regulate bail bond and surety recovery agents, Governor Holden recommends:

- Licensing surety recovery agents and requiring them and bail bond agents to have training in law enforcement techniques.
- Requiring extensive record keeping and review so consumers of bail services get what they bargain for and get the return of their collateral, when appropriate.
- Permitting the director of the Department of Insurance to refuse or discipline a licensee on the basis of a conviction or crime involving moral turpitude, even when the sentence is suspended.

Additional Crime Fighting Tools for Law Enforcement

While Missouri has made major strides in reducing crime, it remains a problem. Governor Holden is committed to making sure the state meets its fundamental obligation to protect citizens from criminals. The Governor's budget recommendations include the following to equip law enforcement agencies, assist crime victims, and promote public safety:

- \$2.6 million to upgrade Highway Patrol communication capabilities.
- \$2.6 million for Highway Patrol criminal justice data processing expenses.
- \$1.6 million to support and enhance crime lab and forensic science services.
- \$1.2 million to enhance the Highway Patrol's Automated Fingerprint Identification System, pursuant to Senate Bill 184 (2003), by developing and integrating a computer-searchable database of palm prints. Currently, the Highway Patrol can match known palm prints against unidentified crime scene palm prints through time-consuming expert examination. Automating the palm print matching process will both expedite and enhance criminal investigations.
- \$639,000 for a crime victims notification system, pursuant to Senate Bill 267 (2001). This centralized system disseminates offender status information to crime victims.
- \$624,154 to establish, pursuant to Senate Bill 184 (2003), an Internet-accessible statewide sex offender registry with a variety of search capabilities. Currently, means of access to offender registries vary from county to county. The statewide registry will both simplify and enhance public access to offender information.
- \$504,330 to improve the state court system that tracks arrest warrants and orders of protection.

- \$658,890 to upgrade the State Emergency Operations Center to comply with new federal guidelines. These improvements will enhance the facility's physical security, and will allow closer coordination and communication between state and federal authorities in times of emergency.
- \$237,819 to deter underage alcohol consumption through a statewide keg registration system, pursuant to Senate Bill 298 (2003).

Missouri Protectors

Missourians have served with distinction in the armed forces of the United States, placing their lives at risk in order to preserve our freedom. Governor Holden recognizes the special debt owed to these guardians of liberty. To date, the Governor has:

- Provided funding to implement the state's World War II Medallion Program. The medals provide a way for Missouri to show its gratitude to its citizens who sacrificed so much to maintain freedom.
- Approved the enactment of the Korean Conflict Medallion Program to honor Missouri's veterans who served the nation during what has often been called "The Forgotten War." The Governor signed Senate Bill 219 on June 26, 2003, the 50th year of the Armistice.
- Awarded the state's first honorary high school diplomas to Missouri veterans who quit school to enter the military during World War II. The Governor signed Operation Recognition with his approval of House Bill 441 on July 12, 2001. Governor Holden later expanded the program to recognize civilian POWs. Honorably discharged veterans and eligible civilian POWs of World War I, World War II, and the Korean War may apply for an honorary diploma.
- Established a new statewide toll-free number to improve veterans' access to their benefits. The number is 1-866-VET-INFO.

- Appointed a Veterans' Benefits Awareness Task Force, led by Lt. Gov. Maxwell, to expand the number of eligible veterans receiving federal and state benefits and assist them in filing claims.
 - Signed House Bill 2047 on July 3, 2002, to ensure tuition relief for all college students called to active duty, whether at home or abroad. (Prior law provided such relief only to federally activated reservists.) Students attending Missouri's public institutions of higher education who are called to active duty to support America's efforts in the Middle East or to provide emergency disaster relief to Missouri communities are eligible for tuition relief.
 - Approved legislation to enhance resources for Missouri's veterans and National Guard members. House Bill 444 was signed into law on June 16, 2003, authorizing an additional \$3 million annually to maintain and improve the state's veterans' homes and cemeteries. The bill also provides a \$1 million increase for tuition assistance to Missouri Guard members and military honor funeral services for veterans.
- The Fiscal Year 2005 budget includes additional resources to expand services provided by the Missouri Veterans' Commission and the National Guard, including:
- \$2 million for construction projects at the Cape Girardeau Veterans' Home.
 - \$1.8 million to comply with federally prescribed veterans' home nursing care standards.
 - \$1.1 million for increased pharmaceutical costs at veterans' homes.
 - \$818,593 to administer the Korean Conflict Medallion Program pursuant to Senate Bill 219 (2003).
 - \$365,044 for administration of National Guard federally funded construction projects.
 - \$105,282 to coordinate ongoing benefits awareness efforts to minority veterans statewide.
 - \$40,000 for completion of the new National Guard armory in Sedalia.

THE IMPACT OF STATE BUDGET CUTS

Deep cuts have already been made to the Missouri budget. Between Fiscal Years 2001 and 2004, about 2,000 positions have been permanently cut from the budget. State departments have worked to minimize the impact of reduced funding on services. However, the following examples demonstrate how recent cuts have negatively impacted the lives of Missourians:

Department of Health and Senior Services

State employees have been cut significantly, particularly general revenue funded staff. These cuts have resulted in reduced services for Missourians and increased workloads for remaining employees.

- The Department of Health and Senior Services has lost 16 percent of its general revenue staff.
- \$2.3 million and 45 staff from the Office of the Director and Division of Administration. This loss of staff has occurred even as more requests for information are being received and education is needed on anthrax and emerging infectious diseases.
- \$3.1 million and 22 staff from the Division of Environmental Health and Communicable Disease Prevention. These reductions occurred while new and increased demands are developing to address West Nile disease; Severe Acute Respiratory Syndrome (SARS); anthrax; and soil, water, and air contamination.
- \$2.9 million and almost 44 staff have been reduced from programs that serve pregnant women and children.
- \$3.6 million for women's primary health care services was eliminated by the General Assembly in Fiscal Year 2004. This program served over 30,000 low-income women throughout the state. For most of these women, the services provided were the only health care they received during the year. Consequences of not funding this program include undiagnosed venereal diseases and cancer, inadequate prenatal care, a quick

succession of births that compromise the woman's health, low-birth weight babies with complex short-term and long-term health problems, and higher infant mortality.

Department of Mental Health

- The Department of Mental Health has lost eight percent of its general revenue staff.
- \$10.3 million in reductions to psychiatric community programs for over 4,000 seriously mentally ill and emotionally disordered children and adults. Services reduced include outpatient treatment, residential treatment, case management, recovery support, and crisis intervention. This funding cut also reduced acute beds purchased through community providers.
- \$7.2 million in cuts to community programs for 2,000 persons with disabilities, resulting in reductions for day habilitation, respite care, transportation, and services to autistic clients.
- \$3.8 million in reductions to substance abuse treatment services, resulting in more than 1,300 clients no longer having access to residential and outpatient habilitation services and recovery treatment networks. These include services such as Oxford Houses and Comprehensive Substance Treatment and Rehabilitation (CSTAR) programs that serve pregnant women and women with children.

Department of Social Services

- The Department of Social Services has lost nine percent of its general revenue staff.
- A \$75 million cut to Medicaid eligibility in Fiscal Year 2003 resulted in approximately 34,300 Missourians losing health care. This cut means parents in families of three who earn more than \$11,760 per year no longer qualify for Medicaid. The cut also reduced women's health care services, transitional medical assistance for low-income families transitioning from welfare to work, and coverage for non-custodial parents who were current on their child

support payments or participating in the Parents' Fair Share Program. With the loss of access to preventative care, it is possible that many have ended up in emergency rooms and hospitals with more expensive health care needs.

- The Grandparents as Foster Parents Program was reduced by a total of \$10.3 million from Fiscal Years 2002 to 2004. Eligible participants had their reimbursement rate reduced from 75 percent to 25 percent of the foster care rate. This lowers the payment rate from \$202 to just \$68 per month for the 2,500 children served by the program. This has created a financial burden for grandparents who have accepted the responsibility of raising their grandchildren on a fixed income.
- \$648,792 for the CHOICES program, which assists foster care youth between the ages of 13 and 15 in becoming responsible adults, was eliminated. This program prepared approximately 1,020 youths annually for the Independent Living Program.
- Community Partnerships were cut by \$4.9 million in Fiscal Years 2002 to 2004, reducing services to more than 70,000 children and low-income families. The 21 Community Partnerships are local decision-making entities that work with state government to coordinate planning, development, and financing of services for children and families. They have been productive in using general revenue funding to leverage local and federal funds to address the social problems of their communities.
- \$2.2 million for cash assistance to legal immigrants was eliminated for about 350 families who cannot qualify for temporary assistance. Due to language and cultural barriers, these families are vulnerable to becoming homeless and living in poverty.
- The Juvenile Court Diversion Program was cut by \$1.6 million, reducing the services to 2,000 at-risk youth and 21,000 other youth across the state. Juvenile courts lost 29 percent of the funding received to help divert juveniles from state custody.

Department of Corrections

- 88 institutional staff positions were eliminated, including cooks, caseworkers, teachers, chaplains, and maintenance staff. These reductions put greater strains on the correctional officers who supervise the inmates as more of their efforts must be directed to covering the duties of the eliminated positions.
- 31 probation and parole staff were cut, reducing offender supervision resources.

Department of Public Safety

- The Department of Public Safety has lost 18 percent of its general revenue staff.
- The National Guard Show-Me Challenge Program was eliminated. The program assisted troubled youth in obtaining an education and job skills.
- Local government and school district partnership grants for school resource officers were eliminated.
- The Highway Patrol is no longer able to provide free DARE instructional materials to local schools and law enforcement agencies.
- Community Oriented Policing outreach and training programs offered through the Director's Office were eliminated.
- Operation Payback awards for tips leading to methamphetamine busts are no longer provided.
- The Multi-Jurisdictional Task Force Program to support state and local law enforcement collaboration was eliminated.
- Basic firefighter training, offered free of charge to volunteer firefighters, has been reduced by 39 percent.
- Regional Crime Lab Program grants were reduced by 43 percent. This money was used by regional crime labs to provide forensic services to criminal justice agencies throughout the state.

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Leading Missouri Through Tough Economic Times

"Like the people of Missouri, state government must live within its means. Missouri has been a leader in taking the fiscally responsible actions necessary to keep our state's budget balanced during these tough times."

Governor Bob Holden

Governor Holden continues to lead the state of Missouri through tough economic times. When Governor Holden took office three years ago, the state was beginning the largest fiscal challenge since World War II. Governor Holden faced these challenges immediately. His first task after taking office was to put Missouri's fiscal house in order. The Governor continues to make balancing the state's budget a priority. These challenges continue in Fiscal Year 2005 requiring additional budget cuts. Through his legislative and budget agenda, Governor Holden again presents a balanced Fiscal Year 2005 budget. His approach focuses on protecting education, promoting job growth, and protecting the health and safety of Missouri citizens.

ENSURING FISCAL RESPONSIBILITY

Missouri is one of only seven states that continues to receive the highest AAA rating from the three national rating agencies. In his first three years, the Governor has taken the following steps to address the state's declining revenue situation and ensure that the state's budget remains balanced:

- Cut \$1.2 billion and 2,000 positions from state department budgets – the most in Missouri history. The cuts recommended by the Governor in Fiscal Year 2005 will bring the total number of positions reduced to 3,000.
- Offered a time-limited tax amnesty program to businesses and individuals that voluntarily agreed to settle past debts. This successful program generated \$70 million in revenue.
- Held budget summits with citizens, legislative leaders, and business leaders across the state. These sessions generated input aimed at increasing government efficiency and making sure working families and small businesses do not carry an unfair share of the state tax burden.
- Conducted a review of corporate tax loopholes and identified those that take much needed revenue away from the state without providing a benefit to the economy.
- Reorganized key operations of state government. In the past three years, the Governor has consolidated motor carrier services and highway safety programs in the Department of Transportation, workforce development services in the Department of Economic Development, and family support programs in the Department of Social Services. He also eliminated two divisions of state government and created a Children's Division in the Department of Social Services to focus on children in state custody and those at risk of abuse or neglect. Governor Holden has been reviewing the structure of state government since he took office. He is committed to integrating departmental operations to improve the way the state delivers services. These efforts have saved over \$4.5 million and reduced the state workforce by about 160 positions.

- Proposed a retirement incentive plan for state employees that was enacted by the General Assembly. The plan decreased the number of employees, reduced personnel costs, and allowed departments to reorganize their workforce. Savings will be \$18.2 million and 557 positions will be eliminated from the state budget.
- Reduced rental costs for state offices by consolidating programs within existing state-owned or leased buildings and decreasing the amount of office space rented by the state. Savings are projected to be over \$1 million annually.
- Created a property preservation fund authorized by Senate Bill 243 (2003), allowing the state to assume liability for property damages. This initiative will save the state approximately \$1 million annually in insurance costs.
- Reduced utility bills through energy conservation in state buildings, saving approximately \$465,000 annually.
- Cut the state vehicle fleet by 20 percent.

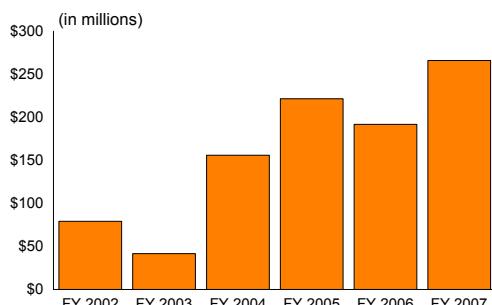
Fiscal Year 2005 Budget Challenges

Nearly every state across the country has faced a fiscal crisis as a result of the downturn in the national economy. In November 2003, the National Governors' Association reported that even though "the national economy has now begun to recover, state revenue growth has not yet responded." This was confirmed by the National Association of State Budget Officers in a report issued the following month. State finances remain fragile. While some states are witnessing small increases in revenues, "most states have not seen any major rebound." In Missouri, there are signs the economy is slowly turning around. A modest rebound is expected over the next fiscal year.

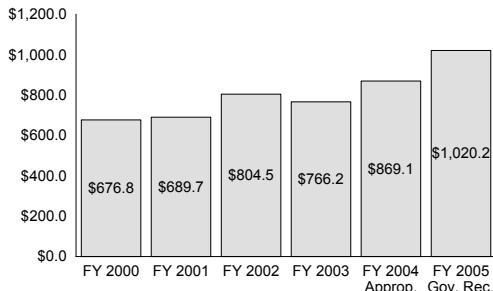
Even if economic recovery is on the horizon, the state budget picture remains guarded. As demonstrated by the following graphs, the increasingly tight budget is due to a combination of factors, including:

- Declining sales, corporate, and individual tax revenues coming into the state, primarily due to the recent recession.
- Substantial increases in medical costs in the Medicaid Program.
- Growth in the prison population.
- An eroded tax base due to the negative impacts of federal tax reductions, corporate tax loopholes, and the escalating costs of state tax credits passed in previous years.

Loss to Missouri Revenue from Federal Tax Cuts



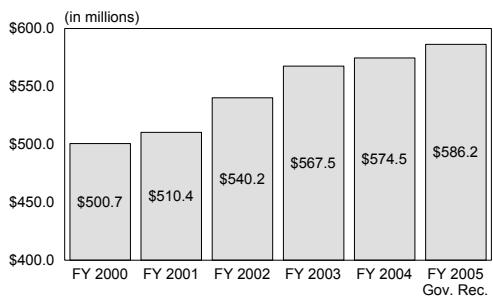
Medicaid General Revenue Expenditures (in millions)



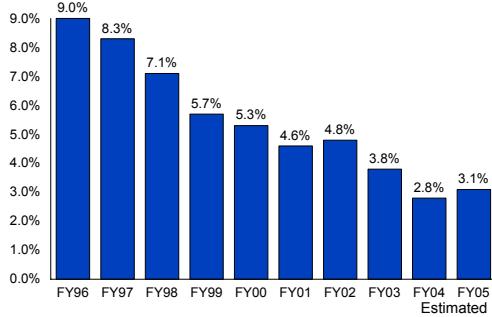
Stagnant Net General Revenue Collections (in millions)



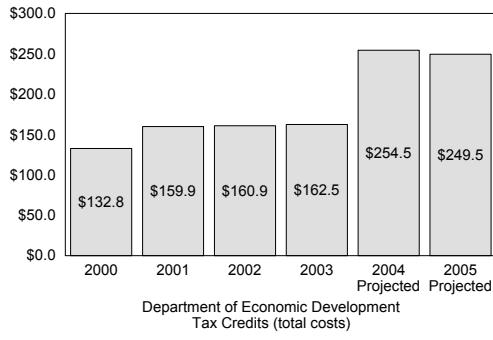
Increased Funding for Correctional Institutions



Decrease in Revenue from Corporate Income and Franchise Taxes Percent of Net General Revenue



Tax Credit Growth (in millions)



Problems with Missouri's Revenue System

Missouri's tax system has experienced many problems in recent years. These problems need to be permanently addressed or schools, seniors, children, and others who depend upon state services will continue to see services erode. The problems with Missouri's revenue system include a shortfall in revenue collections, holes in the tax structure, significant control over revenue by politicians in Washington, and a continued reliance on one-time revenue. More specifically:

Missouri has Experienced a Shortfall in Revenue Collections

- In Fiscal Year 2002, Missouri experienced the first decline in net general revenue collections since 1955, ending with 2.8 percent (\$178.9 million) less in net general revenue collections than the year before.
- Fiscal Year 2003 brought the second year in a row of declining revenue, with a decrease of 4.6 percent (\$284.6 million) in net general revenue collections.
- Declining revenue has occurred despite growth in personal income. Missouri is very dependent on the individual income tax as it makes up about 60 percent of net revenue. Therefore, collections should be closely tied to personal income.
- Individual income taxes, net of refunds, fell by \$382 million between Fiscal Years 2001 and 2003, a ten percent reduction.
- Net corporate and franchise taxes fell by about \$100 million from Fiscal Year 2000 to Fiscal Year 2003, a 30 percent reduction.

Missouri's Tax Structure is Full of Holes

- *Governing* magazine gave Missouri its highest ranking (four stars) for its fiscal management. Missouri was one of only six states to receive four stars.
- At the same time, *Governing* gave Missouri only two stars (out of four possible) for the fairness of its tax system to taxpayers and the adequacy of its revenue. *Governing* said Missouri's "tax base is narrow and full of holes created by exemptions for both income and sales taxes. Fairness problems are inevitable when credits and exemptions expand without much review." Further, *Governing* said, "Given a system like that, it's no surprise that private-sector groups bring tax cases to court on a regular basis. There's relatively little to lose and a lot to gain."
- From 1997 to 1999, the General Assembly permanently reduced Missouri's tax base by about \$700 million. The biggest reductions were the sales tax exemption for food, an increase in the personal exemption for individual income tax, and an exemption of private pensions from income tax. These tax changes have left a permanent and sizable hole in the state's revenue base.
- In addition to tax cuts, the General Assembly also expanded tax credits. Tax credits grew from \$91 million to \$163 million (a 79 percent increase) from Fiscal Year 1999 to Fiscal Year 2003. There are also significant amounts of tax credits that have been issued, but not yet redeemed. These tax credits could be redeemed at any time, causing budget uncertainties and placing further strain on revenue collections.
- Dr. Donald Phares completed a study titled Examining Missouri's Tax System: Tax Expenditures – A First Step. In this study, Dr. Phares refers to the loopholes in our tax system as tax expenditures. He notes "... tax expenditures are seldom, if ever, subject to legislative or executive scrutiny.... While the normal budget process subjects spending to rigorous and very detailed scrutiny and review, such is

not the case with scores of tax expenditures that cost Missouri hundreds of millions of dollars in lost revenue.” Dr. Phares goes on to say, “The tax base for the state’s two major revenue generators, general sales and individual income, has been eroded through these provisions. In addition and perhaps even more damning for the general sales tax, the definition or scope of its base has been narrowed to tangible items that are a shrinking proportion of consumer spending.”

Missouri's Tax System is Controlled by Washington

- Missouri's income tax is coupled to the federal tax system. Although there is good reason for this - ease of tax preparation - it means that the revenue available for vital state sources can be negatively affected by changes to the federal tax code. Federal tax cuts enacted in 2001, 2002, and 2003 will reduce state revenues by an estimated \$220 million in Fiscal Year 2005.
- Although it would be too burdensome for taxpayers to completely decouple Missouri's tax code from the federal system, a few minor changes, such as simply establishing a state standard deduction, would give the state much more control over its own resources without burdening taxpayers.

Missouri has Relied Heavily on One-Time Revenue Sources

- Missouri has used one-time funding sources to fund ongoing expenses. Much of the one-time shortfall was made up by a combination of growing collections, other one-time sources, and targeted cuts to the budget. However, in the current and upcoming fiscal year, the magnitude of the one-time problem has grown to the extent that significant cuts will be necessary if new revenue is not approved.
- In Fiscal Year 2003, about \$435 million in one-time funding was used to support the ongoing budget. This included balances from several funds and one-time revenue from intergovernmental transfer payments and tobacco settlement payments.
- The Governor proposed making up for the loss of these one-time funds in Fiscal Year 2004 through a combination of budget cuts and targeted revenue increases. The General Assembly, however, was opposed to any significant revenue increase. In May, the federal government offered a one-time budget fix for states through increased federal payments. The final budget in Missouri contained a combination of cuts, the one-time federal fiscal relief, and other one-time fixes.

SUMMARY OF FEDERAL TAX CUTS ON MISSOURI REVENUES					
	FY02	FY03	FY04	FY05	FY06
Cuts Passed in State FY 2001					
repeal of the estate tax	\$0.0	(\$30.0)	(\$72.0)	(\$117.0)	(\$165.0)
all other	(\$21.1)	(\$11.6)	(\$8.6)	(\$29.3)	(\$26.8)
	(\$21.1)	(\$41.6)	(\$80.6)	(\$146.3)	(\$191.8)
Cuts Passed in State FY 2002 and FY 2003	(\$58.0)	\$0.0	(\$75.3)	(\$75.3)	N/A
Total	(\$79.1)	(\$41.6)	(\$155.9)	(\$221.6)	(\$191.8)

The most significant components of the current one-time problem are:

Federal fiscal relief

The Fiscal Year 2004 budget includes about \$387 million in one-time payments from the federal government.

Revenue bonds

During Fiscal Year 2003 and Fiscal Year 2004, the state used \$150 million and \$124.5 million respectively to help balance the budget.

Legislation

The General Assembly approved legislation that will generate an estimated \$83 million in Fiscal Year 2004. Unfortunately, about \$67.2 million of that amount is from one-time sources, such as sweeping balances out of various state funds.

Missouri - A Low-Tax State

In addition to being ranked one of the top managed states, Missouri continues to be a low-tax state. It is a "good deal" to live in Missouri and taxpayers get a "good deal" from their state government. Among all states, Missouri ranks 46th in state and local government expenditures per capita. For each dollar an average U.S. citizen pays in state taxes, the average Missouri citizen pays only 80 cents. Missouri state taxes are 20 percent below the U.S. average and among the lowest in the region. Missouri corporations pay less taxes per capita than any other state with a corporate tax. By any objective measure, Missouri is a low-tax state as the table below demonstrates.

**State Rankings on Missouri Revenues and Expenditures
(as compared with all 50 states)**

<u>Indicator</u>	<u>Rank</u>
Revenues	
Total Revenue - State and Local (Per Capita)	45
Corporate Income Tax - State (Per Capita)*	46
Total Taxes (Per Capita)	44
Expenditures	
Total Spending - State and Local (% of Personal Income)	45
Total Spending - State and Local (Per Capita)	46
Total State Government Expenditures (Per Capita)	43

Source: U.S. Census Bureau, State and Local Government Finances, 2003.

*Four states do not levy a corporate income tax.

CREATING A MORE EFFICIENT GOVERNMENT

Between Fiscal Years 2001 and 2004, over 2,000 positions have been permanently cut from the Missouri budget. The Governor's budget recommendations for Fiscal Year 2005 include a net reduction of an additional 1,000 positions, bringing the total reduction to about 3,000 positions.

Comparing 2003 to 2002 year-to-date employment information, Missouri had the sixth largest percentage **decrease** in state and local government employees of all states. Only Oregon, Michigan, Connecticut, Massachusetts, and West Virginia had bigger percentage reductions. All other states had smaller reductions or actually had growth in government employment.

When comparing Missouri to 12 other comparable states (13 including Missouri), Missouri ranks third from the bottom in the number of administrative employees per 10,000 people.

Streamlining Government

Although Missouri has already made deep administrative cuts and improved the efficiency of government operations, Governor Holden continues to encourage all state agencies to look for additional ways to save taxpayer dollars. Under the Governor's leadership, the following additional efficiencies will be implemented:

Spend Management

The Office of Administration has negotiated a contract with a firm that specializes in reducing procurement spending. The contract guarantees savings of at least twice the cost of the services provided, and the contractor projects annual savings between \$6 and \$9 million, all funds, in the first year. Additional savings are expected in future years. The effort is two-pronged – make sure the state is getting the best price possible and buy only what is actually needed. This effort will allow departments to more effectively operate despite large cuts in their current year budgets.

Responsible Debt Management

The state of Missouri is one of only seven states in the nation that have received the highest, "Triple A", bond rating from Moody's Investors Service, Standard and Poor's Corporation, and Fitch Ratings. Maintaining a high rating is important because it saves taxpayers' money. The Office of Administration keeps borrowing costs as low as possible by refinancing debt when market conditions warrant, saving over \$69 million the last two fiscal years. To further maximize savings, the Governor recommends \$200,000 in Fiscal Year 2005 to implement a debt management program. These funds will allow the use of outside consultants to monitor the state's debt and act quickly to save money.

Telecommunications Savings

Representatives from private business joined with several state agencies to lower telecommunication costs. Team recommendations include developing audit guidelines, factoring telecommunication costs into state leased facilities, and amending purchasing contracts. The estimated cost savings over the next several years could be more than \$3 million, all funds.

Vehicle Fleet Management

Following the directive of Governor Holden, the state has reduced its passenger vehicle fleet by 960 vehicles since 2002, a reduction of nearly 20 percent. A new initiative will work to reduce 25 percent of vehicles traveling less than 5,000 miles per year. The vast majority of these vehicles are special function vehicles such as mail delivery and facility support vehicles.

Information Technology Consolidation

Efforts continue to effectively manage the state's information technology (IT). An interagency review committee has recommended the state move to a single e-mail system, and the Governor has directed the implementation of this recommendation. Savings will be generated by using the state's purchasing power to get the best deal on hardware and software and by only training employees to use one system. Staff now working on maintaining these multiple systems can be redirected to other critical needs. Savings will be redirected toward reengineering and consolidating business processes to eliminate duplicate systems and improving the state's IT infrastructure to take advantage of cost-saving mergers. Other IT operations being evaluated for future consolidation include servers, network management, and PC administration and support.

Medicaid Cost Containment

Missouri has undertaken numerous initiatives to control the costs of its Medicaid Program. Cost control measures have saved over \$300 million, state and federal funds, in the Pharmacy Program alone. Because of rising health care costs and the crisis Missouri is currently experiencing with stagnant revenues, the Governor's budget includes numerous cost containment measures to curtail escalating Medicaid expenditures. Combined, these efforts will save about \$52 million general revenue in Fiscal Year 2005. Savings will increase in future years. Cost containment efforts include: carrying out the final steps of a preferred drug list; expanding disease management and case management efforts; implementing copayments on some services; reducing rates paid to providers so they do not exceed normal Medicaid rates; improving the efficiency of the Non-Emergency Medical Transportation Program; and implementing several efforts to ensure Medicaid does not pay for costs that should be paid by private insurers.

Managing for Results Initiative

Governor Holden's Managing for Results Initiative (MRI) is a long-term commitment to doing business more efficiently and effectively. MRI is a management tool for the Governor and his cabinet to help keep government focused on results and to achieve meaningful improvements for citizens. MRI encourages fact-based decision making and innovation and recognizes the need for agencies to work together to obtain significant improvements. Agency projects have saved millions of dollars and countless hours for Missouri citizens and state employees. These projects have helped agencies cope with significant cuts in their salary and expense budgets. Descriptions of these projects can be found at the MRI website (www.mri.missouri.gov). See the following table for examples of recent MRI projects.

Managing for Results Initiative Project Results

Project	Problem / Issue Addressed	Benefits / Savings
Department of Social Services Child Support Enforcement Team	Child support collections were not reaching the children and families who depend upon them on a timely basis.	<ul style="list-style-type: none"> • 50 percent reduction in undistributed collections.
Department of Corrections Victim Services Team	Victims were not always being notified about upcoming parole hearings in a timely fashion.	<ul style="list-style-type: none"> • 100 percent success in providing 30-day advance notification of hearings.
Department of Corrections Population Growth Team	Offender population has been expanding rapidly. Left unchecked, new prisons will have to be built at a significant cost to taxpayers.	<ul style="list-style-type: none"> • Through improved Probation and Parole supervision, reduced incarcerated offender population growth from 4.56 offenders per day in Fiscal Year 2002 to 1.39 offenders per day in Fiscal Year 2003.
Department of Corrections Recycling Team	Recycling was not being done in all correctional facilities.	<ul style="list-style-type: none"> • \$100,000 in savings at correctional institutions. • Efforts are being expanded to other institutions and other departments. • Savings are expected to reach over \$1 million.
Department of Labor and Industrial Relations Appeals Team	Unemployment compensation appeals were taking too long to resolve.	<ul style="list-style-type: none"> • Backlog was reduced from a high of 6,800 cases to just 200. • The backlog should be eliminated in 2004.
Office of Administration Statewide Mail Services Team	The cost of mail is increasing at the same time agency budgets are being cut.	<ul style="list-style-type: none"> • \$1.9 million in savings by implementing the use of computer technology and revising the mail services contract.
Department of Mental Health Collections Team	Many payments for services provided to individuals served by the department went uncollected.	<ul style="list-style-type: none"> • \$534,498 in increased collections in Fiscal Year 2003. • When fully implemented, collections should increase to over \$2 million annually.
Office of Administration Statewide Telecommunications Team	The budget for telecommunications services is \$35 million annually statewide. Opportunities to improve operations could have a significant positive impact on the state budget.	<ul style="list-style-type: none"> • Developing audit guidelines, incorporating costs into state space plans, and amending purchasing contracts will save a projected \$3 million over the next several years.

THE IMPACT OF STATE BUDGET CUTS

The General Assembly has already made deep cuts to the Missouri budget. Examples of cuts already made include:

- The School Foundation Program was reduced by \$115.8 million by the General Assembly. Since a significant percentage of the program supports teacher salaries, school districts were forced to eliminate 2,001 classroom teachers and aides. An additional 508 positions were also reduced that included principals, supervisors, library/media personnel, guidance personnel, and administrative staff.
- Reductions to the School Foundation Program have forced school districts to increase class sizes and eliminate programs for gifted, at-risk, and disruptive students.
- New technology grants to schools were reduced by \$8.8 million, a 42 percent decrease. This resulted in markedly reduced grants to school districts for the purchase of computers, software, and Internet connections.
- A reduction of \$39.7 million in state aid to higher education institutions has resulted in tuition costs at Missouri's public four-year colleges and universities rising by an average of 14.8 percent in the last year. Tuition costs at Missouri's community colleges have risen by an average of 9.3 percent over the same time period. The average Missouri college student now pays \$1,344 more per year in higher tuition and fees to attend a four-year institution and \$342 more per year to attend a two-year institution. The tuition increases have placed an enormous financial burden on Missouri students and their families, and have forced an increasing number of students to take on unacceptably high levels of debt in order to pursue a college education. In addition to increasing tuition, institutions have been forced to eliminate programs and cut faculty and staff in order to deal with the funding reductions.
- Missouri's grant and scholarship programs were reduced by \$589,550, resulting in many students not receiving financial aid. Reduced financial aid, on top of crippling increases in tuition, is prohibiting some lower and middle income families from affording the cost of college.
- \$75 million state and federal funds cut from Medicaid resulted in approximately 34,300 Missourians losing health care. This reduction eliminated health care coverage for parents trying to transition from welfare to work and reduced coverage for pregnant women. With the loss of access to preventative care, it is likely that many have ended up in emergency rooms and hospitals with more expensive health care needs.
- \$10.3 million cut from the Grandparents as Foster Parents Program. Eligible participants have had their reimbursement rate reduced from \$202 to just \$68 per month for the 2,500 children served by the program. This has created a financial burden for grandparents who have accepted the responsibility of raising their grandchildren on a fixed income.
- \$10.3 million in reductions to psychiatric community programs for over 4,000 seriously mentally ill and emotionally disordered children and adults. Services reduced include outpatient treatment, residential treatment, case management, recovery support, and crisis intervention.
- \$7.2 million in cuts to community programs for 2,000 persons with disabilities, resulting in reductions for day habilitation, respite care, transportation, and services to autistic clients.
- \$3.8 million in reductions to substance abuse treatment services, resulting in more than 1,300 clients no longer having access to services. These include services such as Oxford Houses and Comprehensive Substance Treatment and Rehabilitation (CSTAR) programs that serve pregnant women and women with children.

- \$3.1 million cut from environmental health and communicable disease prevention efforts. These reductions occurred while new and increased demands are developing to address West Nile disease; Severe Acute Respiratory Syndrome (SARS); anthrax; and soil, water, and air contamination.
- \$3.6 million for women's primary health care services was eliminated. This program served over 30,000 low-income women throughout the state. Consequences of not funding this program include undiagnosed venereal diseases and cancer, inadequate prenatal care, low-birth weight babies with complex short-term and long-term health problems, and higher infant mortality.
- \$2.6 million was cut from the Department of Corrections, resulting in the elimination of 88 institutional staff positions including cooks, caseworkers, teachers, chaplains, and maintenance staff. These reductions put greater strains on the correctional officers who supervise inmates as more of their efforts must be directed to covering the duties of the eliminated positions.
- \$6.2 million was cut from the Customized Job Training program. This has resulted in fewer companies receiving assistance, and smaller awards for those that do. Employees receiving training decreased from 35,613 to 24,639 which translates into a less competitive workforce and fewer high-paying jobs.
- \$1.1 million in technology funding cuts have resulted in the elimination of the centers for Advanced Technology and Electronic Materials Applied Research Center programs. The Manufacturing Extension Partnership Program and Innovation Centers have also received less funding. These combined actions mean fewer research projects and fewer companies that are served with technology and commercialization activities. This will have a negative impact on the amount of new investment and sales generated by companies that use these programs.
- \$180,688 was cut and forced the closure of the Cameron Veterinary Laboratory. This facility handled the laboratory component of the State Meat and Poultry Inspection Program and provided diagnostic testing for animal diseases in northwest Missouri.
- \$4.6 million in assistance for transit providers has been reduced, eliminating approximately 1.3 million trips. Many people rely on public transportation to get to work, get to medical appointments, and carry out other daily activities.
- \$4 million for Landmark Local Park grants has been eliminated. This program provided an essential source of revenue for developing park and recreation facilities throughout the state.
- State employees have been cut significantly, particularly general revenue funded staff. For example, from Fiscal Year 2001 through 2004:
 - The Department of Economic Development lost 48 percent of its general revenue staff.
 - The Office of Administration lost 25 percent.
 - The Department of Public Safety lost 18 percent.
 - The Department of Health and Senior Services lost 16 percent.
 - The Department of Mental Health lost 8 percent.

These cuts have led to reduced services for Missourians and increasing workloads for remaining employees.